

**JSC NOVOSHIP  
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31st December 2009**

## JSC Novoship

## Consolidated Financial Statements

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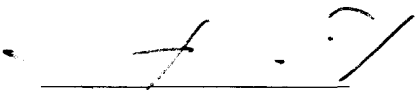
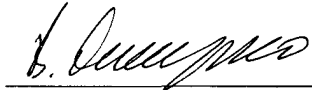
## JSC Novoship

## Consolidated Financial Statements

## Statement of Management Responsibilities

Management has prepared and is responsible for the financial statements and related notes of JSC Novoship and its subsidiaries ("the Group"). They have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on judgements and estimates by management.

The Group maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Group's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

  
\_\_\_\_\_  
I. Tonkovidov  
President  
25 March 2010  
\_\_\_\_\_  
V. Oskirko  
Vice-president  
25 March 2010

**Independent Auditors' Report  
to the Shareholders of JSC Novoship**

We have audited the accompanying consolidated financial statements of JSC Novoship and its subsidiaries (the "Group") as at 31 December 2009 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 misstatement, 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 policies 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 audit opinion.

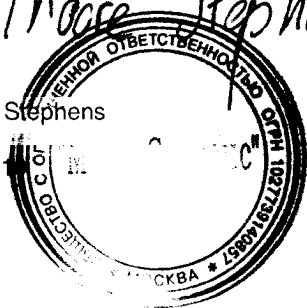
*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*OOO Moore Stephens*

OOO Moore Stephens

25 March 2010



38 Stremyanny Pereulok  
Moscow  
113093

**Consolidated Statement of Financial Position**  
**As at 31st December 2009**  
(Expressed in U.S.\$'000)

	Note	2009	2008
<b>Assets</b>			
<b>Non-current assets</b>			
Fleet	6	1,941,490	1,687,138
Tonnage under construction	7	178,493	426,047
Other fixed assets	8	19,234	19,987
Investment property	9	1,340	1,330
Other fixed assets under construction	10	7,036	12,223
Investments	11	5,346	2,483
Long term receivables		1,257	-
Retirement benefit plans	20	3,590	4,044
		<u>2,157,786</u>	<u>2,153,252</u>
<b>Current assets</b>			
Inventories	14	25,114	17,726
Trade and other receivables	15	55,325	62,054
Current tax receivable		237 ✓	2,774
Investments	11	3,215	7,503
Cash and cash equivalents	17	128,794 ✓	140,178
		<u>212,685</u>	<u>230,235</u>
<b>Non-current assets held for sale</b>	13	5,551	5,175
<b>Total assets</b>		<u><u>2,376,022</u></u>	<u><u>2,388,662</u></u>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital	16	14,655	17,795
Reserves		1,513,477	1,448,968
Equity attributable to the owners of the parent		1,528,132	1,466,763
Minority interest		231	194
<b>Total equity</b>		<u>1,528,363</u>	<u>1,466,957</u>
<b>Non-current liabilities</b>			
Secured bank loans	18	651,352	616,192
Finance lease liabilities	19	7,181	7,950
Retirement benefit obligations	20	8,733	7,805
Deferred tax liabilities	21	9,038	12,093
Other non-current liabilities		2,323	2,045
		<u>678,627</u>	<u>646,085</u>
<b>Current liabilities</b>			
Trade and other payables	22	49,391	54,861
Secured bank loans	18	77,684	131,370
Finance lease liabilities	19	771	733
Current tax payable		389	1,839
Provision for onerous contracts	7	-	1,172
Derivative financial instruments	23	38,449	46,989
Liability to buyback shares	16	-	36,945
Dividends payable to minority shareholders		2,348	1,711
		<u>169,032</u>	<u>275,620</u>
<b>Total equity and liabilities</b>		<u><u>2,376,022</u></u>	<u><u>2,388,662</u></u>

Approved by the Management Board and authorised for issue on 25 March 2010 and signed on its behalf by:

President, Tonkovidov I.V.

Vice-president, Oskirko V.P.

**Consolidated Income Statement**  
**For the period ended 31st December 2009**  
(Expressed in U.S.\$'000)

	Note	2009	2008
Freight and hire receivable	31	513,094	749,144
Voyage expenses and commissions	32	<u>(140,336)</u>	<u>(193,523)</u>
<b>Time charter equivalent revenues</b>		<b>372,758</b>	<b>555,621</b>
<b>Direct operating expenses</b>			
Vessels' running costs	33	134,145	129,643
Vessels' drydock cost amortisation	6	<u>20,287</u>	<u>18,353</u>
		<u>(154,432)</u>	<u>(147,996)</u>
<b>Profit on vessels' trading</b>		<u>218,326</u>	<u>407,625</u>
<b>Other operating expenses</b>			
Depreciation and amortisation			
Vessels' depreciation	6	76,451	75,401
Vessels' impairment provision	6	8,994	6,096
Other depreciation	8	3,022	5,601
Investment property depreciation	9	<u>204</u>	<u>186</u>
		<u>(88,671)</u>	<u>(87,284)</u>
Bad and doubtful debts		(245)	(490)
General and administrative expenses	25	<u>(15,226)</u>	<u>(27,697)</u>
<b>Total other operating expenses</b>		<u>(104,142)</u>	<u>(115,471)</u>
<b>Profit from vessels' operations</b>		<b>114,184</b>	<b>292,154</b>
Reversal of impairment of tonnage under construction	7	1,025	(1,025)
Release of onerous contract provision	7	1,172	(1,172)
(Loss) / gain on sale of assets	26	(2,035)	26,927
Gain on disposal of investments		406	-
Net other operating income	28	4,649	3,571
Other taxes	27	(3,705)	(4,091)
Share of gains in associated undertakings		<u>151</u>	<u>170</u>
<b>Operating profit</b>		<b>115,847</b>	<b>316,534</b>
<b>Other (expenses) / income</b>			
Interest expense		(29,996)	(36,659)
Bank and other interest receivable		5,647	12,193
Other financial expenses		(2,191)	(2,754)
Other non-operating (expenses) / income		(13,327)	(7,272)
Gain / (loss) on derivative financial instruments held for trading	23(b)	7,881	(36,857)
Impairment of goodwill		-	(5,719)
Differences on foreign exchange		<u>(3,510)</u>	<u>(14,747)</u>
<b>Net other expenses</b>		<u>(35,496)</u>	<u>(91,815)</u>
<b>Profit before income taxes</b>		<b>80,351</b>	<b>224,719</b>
Income taxes	30	<u>(4,828)</u>	<u>(7,496)</u>
<b>Profit for the period</b>		<u>75,523</u>	<u>217,223</u>
<b>Attributable to:</b>			
Owners of the parent		75,486	217,203
Minority interest		<u>37</u>	<u>20</u>
		<u>75,523</u>	<u>217,223</u>
<b>Earnings per share:</b>			
Basic and diluted earnings per preference share 37		U.S.0.23	U.S.0.86
Basic and diluted earnings per ordinary share 37		<u>U.S.0.23</u>	<u>U.S.0.49</u>

**Consolidated Statement of Comprehensive Income**  
**For the period ended 31st December 2009**  
(Expressed in U.S.\$'000)

	Note	2009	2008
<b>Profit for the period</b>		75,523	217,223
<b>Other comprehensive income:</b>			
Exchange difference on translating foreign operations		3,232	(6,478)
Hedging instruments	23(a)	659	(2,230)
Tax on hedging instruments	21	(101)	315
Available for sale financial assets		<u>1,139</u>	<u>(569)</u>
<b>Other comprehensive income / (expense) for the period, net of tax</b>		<u>4,929</u>	<u>(8,962)</u>
<b>Total comprehensive income for the period</b>		<u>80,452</u>	<u>208,261</u>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		80,415	208,241
Minority interest		<u>37</u>	<u>20</u>
		<u>80,452</u>	<u>208,261</u>

JSC Novoship

Consolidated Statement of Changes in Equity  
For the period ended 31st December 2009  
(Expressed in U.S.\$'000)

	Note	Share Capital (note 16)	Treasury Shares	Hedging Reserve	Fair value Reserve	Currency Reserve	Retained Earnings	Attributable to owners of the parent	Minority Interest	Total
<b>Balance 1st January 2008</b>		17,795	(4,316)	-	710	7,370	1,299,200	1,320,759	-	1,320,759
Total comprehensive income		-	-	(1,915)	(569)	(6,478)	217,203	208,241	194	208,435
Dividends	24	-	-	-	-	-	(25,292)	(25,292)	-	(25,292)
Purchase of own shares	16	-	(1,706)	-	-	-	(35,239)	(36,945)	-	(36,945)
<b>Balance 31st December 2008</b>		17,795	(6,022)	(1,915)	141	892	1,455,872	1,466,763	194	1,466,957
Total comprehensive income		-	-	558	1,139	3,232	75,486	80,415	37	80,452
Correction of first buy-back		-	(23)	-	-	-	6,547	6,524	-	6,524
Cancellation of shares	16	(1,729)	1,729	-	-	-	-	-	-	-
Second buy-back of shares	16	(1,411)	1,220	-	-	-	(3,519)	(3,710)	-	(3,710)
Dividends	24	-	-	-	-	-	(21,860)	(21,860)	-	(21,860)
<b>Balance 31st December 2009</b>		14,655	(3,096)	(1,357)	1,280	4,124	1,512,526	1,528,132	231	1,528,363



**Consolidated Statement of Cash Flows**  
**For the period ended 31st December 2009**  
(Expressed in U.S.\$'000)

	Note	2009	2008
<b>Operating Activities</b>			
Cash received from freight and hire of vessels		546,138	737,470
Other cash receipts		12,196	25,463
Cash payments for voyage and running costs		(297,913)	(329,350)
Other cash payments		(43,165)	(42,192)
Cash generated from operations		217,256	391,391
Interest received		5,647	9,734
Taxation paid		(7,175)	(11,517)
Net cash inflow from operating activities		215,728	389,608
<b>Investing Activities</b>			
Proceeds from sale / (purchase) of investments		901	(942)
Expenditure on vessels		(3,383)	(2,907)
Expenditure on drydocking		(16,188)	(18,623)
Expenditure on tonnage under construction		(98,650)	(259,146)
Expenditure on other fixed assets		(9,755)	(19,397)
Proceeds on sale of vessels		7,863	47,373
Proceeds on sale of other fixed assets		117	6,599
Buy back of shares		(34,287)	-
Decreases / (increase) in term deposits		2,007	(6,446)
Reimbursement received		-	20,225
Net cash outflow from investing activities		(151,375)	(233,264)
<b>Financing Activities</b>			
Loans drawn down		113,788	11,625
Repayment of loans		(131,692)	(147,547)
Financing costs		(1,652)	(1,237)
Capital element of finance leases		(711)	(681)
Interest paid on loans		(20,971)	(37,874)
Interest paid on finance leases		(574)	(598)
Interest on financial instruments receivables		259	6,016
Interest on financial instrument payables		(10,360)	(5,457)
Dividends paid		(21,223)	(24,889)
Net cash outflow from financing activities		(73,136)	(200,642)
<b>Decrease in cash and cash equivalents</b>		(8,783)	(44,298)
<b>Cash and cash equivalents at beginning of period</b>		140,178	195,637
Effect of exchange rate changes on cash and cash equivalents		(2,601)	(11,161)
<b>Cash and cash equivalents at end of period</b>	17	<u>128,794</u>	<u>140,178</u>

**Notes to the Consolidated Financial Statements**  
**31st December 2009**

**1. Basis of Preparation of Consolidated Financial Statements**

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 10th 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 and primary place of business is the Russian Federation, Novorossiysk, Ulitsa Svobody, 1.

As at the financial reporting date the majority of the Company's voting shares are owned by OAO "Sovcomflot" (the "Parent"). The Company's ultimate controlling party is the Government of the Russian Federation.

**2. Significant Accounting Policies****a) Basis of accounting**

The financial statements have been prepared in U.S. Dollars (U.S.\$), the currency of the Group's primary economic environment, and in accordance with applicable International Financial Reporting Standards.

**b) Basis of consolidation**

The consolidated financial statements include the financial statements of JSC Novoship and its subsidiaries and joint venture, for the period from 1st January 2009 to 31st December 2009.

The results of the subsidiaries and joint ventures acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries and joint venture to bring their accounting policies into line with those used by other members of the Group.

**c) Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, are recognised at their fair values at the acquisition date.

**d) Segmental reporting**

The Group reports financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria:

- its reported revenue, from both external customers and inter-segment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; or
- the absolute measure of its combined reported profit or loss is 10 per cent or more of the greater, in absolute amount, of the reported profit of all operating segments that did not report a loss and the reported loss of all operating segments that reported a loss; or
- its assets are 10 per cent or more of the combined assets of all operating segments.

The management accounting policies of the operating segments are identical to the policies described in this note.

**e) Investments in associates**

The results and assets and liabilities of associates are included in these financial statements using the equity method of accounting. Investments in associates are carried in the statement of financial position at cost as adjusted by post-acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**2. Significant Accounting Policies (Continued)**

## e) Investments in associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

## f) Interests in joint ventures

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are consolidated with the equivalent items in the consolidated financial statements on a line-by-line basis.

## g) Goodwill and other intangible assets

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or the jointly controlled entity recognised at the date of acquisition. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of acquisition, the excess is recognised immediately in the income statement. Goodwill is initially recognised as an asset at cost and subsequently measured at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described in note 2(e) above.

## h) Non-current assets held for sale

Non-current assets and disposal Groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal Group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal Groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell.

## i) Freight and hire receivable

Freight and hire receivable represents vessel earnings during the period. Vessel earnings are measured at the fair value of the consideration received or receivable.

Provision is made for all hire receivable to the end of the financial reporting period in respect of time charter voyages in progress. Profits arising from voyage charters in progress at the end of the financial reporting period are apportioned into accounting periods on the basis of the proportion of the voyage completed at the end of the financial reporting period on a discharge / discharge port basis. Full provision is made for any losses on voyages in progress at the end of the financial reporting period.

## j) Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**2. Significant Accounting Policies (Continued)**

k) Currency translation

Transactions during the period in other currencies have been translated into U.S. Dollars at rates ruling at the time.

Liabilities and current assets in other currencies at the end of the financial reporting period have been translated into U.S. Dollars at rates ruling on that date. For the purposes of these financial statements, liabilities and current assets are translated as follows:

	<u>2009</u>	<u>2008</u>
	<u>Exchange rate</u>	<u>Exchange rate</u>
	<u>U.S.\$1</u>	<u>U.S.\$1</u>
Russian Roubles (RUR)	30.2442	29.3804
Pounds Sterling (GBP)	0.6193	0.6955
Euros (EUR)	0.6970	0.7194

The results of foreign subsidiaries, joint ventures and associates are translated into U.S. Dollars at the average rate of exchange for the period. Differences arising on retranslation of their opening net assets and results for the period at closing rates of exchange are dealt with as movements in other comprehensive income. All other exchange differences have been dealt with through the income statement.

l) Borrowing costs

Borrowing costs are recognised in the income statement in the period to which they relate except to the extent that they are capitalised as part of the cost of assets under construction.

m) Leasing

Finance leases are incorporated in the financial statements of the Group at the lower of fair value and net present value of future obligations. The net present value of future obligations is calculated by discounting the total obligation outstanding, at the date of the lease agreement, at the interest rate implicit within the lease. Finance costs are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

n) Retirement benefit costs

The Group operates a number of retirement benefit schemes for its shore-based staff and seafarers.

Defined contribution retirement benefit plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Defined benefit retirement benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation and unrecognised past service cost. Any asset resulting from this calculation is limited to unrecognised past service cost and reductions in future contributions to the plan.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**2. Significant Accounting Policies (Continued)**

n) Retirement benefits costs

Long-term service retirement benefit plans

The Group's net obligation in respect of long-term service retirement benefit plan is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method.

The long-term service benefit obligation recognised in the statement of financial position represents the present value of the defined lump-sum benefit obligation.

The Group recognises all actuarial gains and losses arising from both defined benefit retirement benefit plans and long-term service retirement benefit plans in the income statement in the period in which they arise.

The discount rate used to calculate the present value is the yield, at the end of the financial reporting period, on government bonds that have maturity dates which approximate the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

o) Fixed assets and depreciation

The Group's fleet, buildings and other fixed assets are stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation in respect of the Group's fleet is charged so as to write off the book value of the vessels, less an estimated scrap value, on a straight line basis over the anticipated useful life of the vessels which is as follows:

Oil, product tankers	25 years
Bulk carriers	25 years

For the purposes of these financial statements the residual values of vessels have been calculated as follows:

	<u>2009</u> <u>U.S.\$</u> <u>per LWT</u>	<u>2008</u> <u>U.S.\$</u> <u>per LWT</u>
Oil, product tankers	390	280
Bulk carriers	335	250

Depreciation in respect of buildings and other fixed assets is charged so as to write off their cost on a straight-line basis at a rate of between 2.5% and 5% and between 20% and 33% per annum respectively.

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.

p) Investment property

Investment property is stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is provided on the same basis as for buildings and other fixed assets as described in note 2(o) above.

q) Assets under construction

Assets under construction, which are assets that necessarily take a substantial period of time to get ready for their intended use, are carried at cost, less any recognised impairment loss. Cost includes supervision fees and expenses, professional fees and capitalised borrowing costs.

Interest payable directly attributable to finance newbuildings under construction, is added to the cost of those newbuildings, until such time as the newbuildings are ready for their intended use and are delivered to the Group.

Depreciation of these assets commences when the assets are ready for their intended use.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**2. Significant Accounting Policies (Continued)**

## r) Drydocking and special survey costs

Drydocking and special survey costs are capitalised and written off to direct operating expenses on a straight line basis over the estimated period to the next drydocking. Unamortised balances at the date of disposal are written off to profit / loss on sale of vessels.

## s) Impairment

At the end of each financial reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

## t) Inventories

Inventories are stated at the lower of cost and net realisable value and comprise bunkers (where applicable), lub oils, victualling and slopchest stocks and other inventories. Cost is calculated using the first in first out method.

Other stores and spares relating to vessel operations are charged to running costs when purchased and no account is taken of stocks remaining on board at the end of the period.

## u) Financial instruments

Financial assets and liabilities are recognised on the Group's statement of financial position when the Group has become a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period.

Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. An allowance is made when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount. The amount of the allowance is recognised in the income statement.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against bad and doubtful debts in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on deposit with banks with original maturity of six months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**2. Significant Accounting Policies (Continued)**

## u) Financial instruments (continued)

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 into other category of financial assets. Unlisted shares and listed shares held by the Group that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses and foreign exchange gains and losses on available-for-sale monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is included in profit or loss for the period. Investments in equity shares that are not traded in an active market and where fair value cannot be estimated on a reasonable basis are stated at cost less impairment losses.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Bank borrowings

Interest bearing bank loans and overdrafts are initially measured at fair value (proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign exchange rates.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate movements on its bank borrowings and foreign exchange rate movements on non-U.S. Dollar denominated payables.

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

The Group designates certain derivatives as hedges of interest rate risk on its bank borrowings. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised in other comprehensive income and any ineffective portion is recognised immediately in the income statement. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**2. Significant Accounting Policies (Continued)**

## v) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profits for the period which are subject to the fiscal regulations of the countries in which the Company and its subsidiaries are incorporated. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

## w) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation, and are discounted to present value where the effect is material.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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.



**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

### 3. Adoption of New and Revised International Financial Reporting Standards

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1st January 2009.

The adoption of the Standards and Interpretations issued by the IASB has not led to any changes in the Group's accounting policies. The Group starting from 1st January 2009 applied IFRS 8 for the first time, disclosing comparatives for 2008.

At the end of the reporting period, the following Standards and Interpretations were in issue but not yet effective:

	<u>Effective date</u>
<u>New standards</u>	
IFRS 9: "Financial Instruments"	1 January 2013
<u>Revised standards</u>	
IAS 24 (revised): "Related party Disclosures"	1 January 2011
Amendments to IAS 32: "Classification of rights issues"	1 February 2010
Amendments to IAS 39, "Financial Instruments: Recognition and Measurement: Eligible Hedge Items"	1 July 2009
Amendments to IFRS 1: "Additional Exemptions for First time Adopters"	1 January 2010
Amendments to IFRS 2: "Group Cash-settled Share-based Payment Transactions"	1 January 2010
Revisions to IFRS 3, "Business Combinations" and Consequential Amendments to IAS 27, "Consolidated and Separate Financial Statements", to IAS 31 "Interests in Joint Ventures" and to IAS 28 "Investments in Associates"	1 July 2009
<u>New interpretations:</u>	
IFRIC 17: "Distributions of Non-cash Assets to Owners"	1 July 2009
IFRIC 18 "Transfers of assets from customers"	1 July 2009
IFRIC 19: "Extinguishing Financial Liabilities with Equity Instruments"	1 July 2010
<u>Revised interpretations:</u>	
Amendments to IFRIC 14: "Prepayments of a Minimum Funding Requirements"	1 January 2011

The IASB improvements project is an annual occurrence. The improvements to IFRSs issued in April 2009 impact on over ten standards and interpretations. These changes are effective for accounting periods beginning on or after 1 January 2010 and in some cases on or after 1 July 2009.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no impact on the results and financial position presented in these financial statements other than changes to the disclosures required in the financial statements.

These financial statements have been prepared in accordance with the revised IAS 1 which is effective for accounting periods beginning on 1st January 2009. The revised IAS 1 prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are shown in two performance statements (the income statement and statement of comprehensive income).

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

#### **4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The most significant areas in which estimates are applied include the following:

a) Fleet impairment

The Group reviews the carrying value of fleet on an annual basis. In determining whether any signs of an indication of impairment exist the management relies on the opinion of independent vessel brokers. The valuers determine by reference to recent sales of similar vessels the amount a vessel could be sold for, assuming that the vessel is in a reasonable condition. The valuation basis utilised implicitly includes the value of dry docking in the overall valuation.

Management critically reviews the valuation arrived at by the valuers and also produces calculations of value in use based on discounted anticipated future cash flows. If an indication of impairment is identified, the need for recognising an impairment loss is assessed by comparing the carrying amount of the vessels to the higher of the fair value less cost to sell and the value in use. The review for potential impairment indicators and projection of future undiscounted and discounted cash flows related to the vessels is complex and requires the Group to make various estimates including future freight rates, earnings from the vessels and discount rates. All of these items have been historically volatile. If the estimated future cash flow or related assumptions in the future experience change, an impairment of vessels may be required. Details of assumptions used are disclosed in Note 6. The basis on which the Group calculated recoverable amount as at 2009 differed from the basis used as at 31st December 2008. Management decided to change the basis of estimation in order to increase the sophistication of the methodology applied.

b) Depreciation

The Group charges depreciation on the basis of the estimated useful lives and estimated residual value of fixed assets. These estimates are based on management's knowledge of the assets and the use to which they are put. Estimates of useful lives and residual values are reviewed on an annual basis.

c) Impairment losses on receivables

The Group reviews all its receivables to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an asset. Management uses estimates to determine both the amount and timing of future cash flows.

d) Impairment losses on assets held for sale and fixed assets carried at cost less accumulated depreciation other than fleet

The Group reviews its fixed assets carried at cost to assess impairment on an annual basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an asset. Management uses estimates to determine both the amount and timing of future cash flows. The Group uses discounted cash flow techniques to arrive at net present values where appropriate.

e) Valuation of investments available for sale

The Group reviews the carrying value of investments available for sale at the end of each reporting period. Investments in quoted shares are measured at market value at the balance sheet date, and investments in non-quoted shares are measured at estimated fair value.

f) Valuation of derivative

The Group reviews the carrying value of derivatives at the end of each reporting period. Management determines an appropriate carrying value with the reference to market value estimates it receives from banks issuing these derivatives. Banks determine the values by reference to discounted cash flow projections where the key inputs are interest rates and volatility. Generally the banks' estimates are accepted without further adjustments.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)**

g) Pension and retirement benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 20.

**5. Directors and Management**

The corporate structure of JSC Novoship comprises a Board of Directors which is responsible for policy decisions and overall supervision of the Group and a Board of Management which is responsible for day to day management.

The Board of Directors are:

S.O. Frank	President and CEO of OAO Sovcomflot
E.N. Ambrosov	Executive Vice-President of OAO Sovcomflot
N.L. Kolesnikov	Executive Vice-President of OAO Sovcomflot, Chief Strategy and Financial Officer
E.V. Kostyuk	Adviser to President of JSC Novoship
M. G. Manasov	UBS Securities, UBS Bank – Member of Board of Directors
V.A. Mednikov	Vice-President of OAO Sovcomflot
S.G. Popravko	Managing Director of Unicom Management Services (Cyprus) Ltd
R. Sasson	UFG Asset Management Group –Senior Managing Partner
I.V. Tonkovidov	President and CEO of JSC Novoship

The Board of Management members are:

I.V. Tonkovidov	President and CEO of JSC Novoship
S.N. Burima	Vice-President of JSC Novoship
S.V. Makarov	Vice-President of JSC Novoship (resigned on 17th January 2010)
V.P. Oskirko	Vice-President of JSC Novoship
N.V. Ryzhuk	Chief Accountant of JSC Novoship
Z.N. Spasova	Vice-President – Director of Economics Department of JSC Novoship (resigned on 17th January 2010)
O.A. Stepanov	Director of Human Resources Department of JSC Novoship
A.O. Khaydukov	Director of Safety and Quality Department of JSC Novoship (resigned on 17th January 2010)

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**6. Fleet**

	Note	Vessels U.S.\$'000	Drydock U.S.\$'000	Total Fleet U.S.\$'000
<b>Cost</b>				
At 1st January 2008		1,984,354	69,802	2,054,156
Expenditure in period		2,615	18,623	21,238
Transferred from tonnage under construction	7	128,605	4,160	132,765
Transferred to non-current assets held for sale	13	(20,116)	(2,210)	(22,326)
Eliminations		-	(11,067)	(11,067)
Effect of movements in exchange rate		(8,054)	(276)	(8,330)
At 31st December 2008		2,087,404	79,032	2,166,436
Expenditure in period		3,382	16,135	19,517
Transferred from tonnage under construction	7	340,830	6,400	347,230
Eliminations		-	(23,042)	(23,042)
Disposal		(25,174)	(2,345)	(27,519)
Effect of movements in exchange rate		4,432	133	4,565
At 31st December 2009		<u>2,410,874</u>	<u>76,313</u>	<u>2,487,187</u>
<b>Depreciation</b>				
At 1st January 2008		370,490	35,658	406,148
Charge for the period		75,401	18,353	93,754
Group's share of impairment provision recognised by Joint Venture		6,096	-	6,096
Transferred to non-current assets held for sale	13	(12,646)	(1,334)	(13,980)
Eliminations		-	(11,067)	(11,067)
Effect of movements in exchange rate		(1,339)	(314)	(1,653)
At 31st December 2008		438,002	41,296	479,298
Charge for the period		76,451	20,287	96,738
Group's share of impairment provision recognised by Joint Venture		8,994	-	8,994
Disposal		(15,560)	(2,094)	(17,654)
Eliminations		-	(23,042)	(23,042)
Effect of movements in exchange rate		1,297	66	1,363
At 31st December 2009		<u>509,184</u>	<u>36,513</u>	<u>545,697</u>
<b>Net book value</b>				
At 31st December 2009		<u>1,901,690</u>	<u>39,800</u>	<u>1,941,490</u>
At 31st December 2008		<u>1,649,402</u>	<u>37,736</u>	<u>1,687,138</u>
			2009 U.S.\$'000	2008 U.S.\$'000
Market value <sup>1</sup>			<u>1,799,000</u>	<u>2,549,000</u>
Current insured values <sup>1</sup>			<u>2,860,657</u>	<u>3,143,000</u>
Total deadweight tonnage (dwt) <sup>1</sup>			<u>4,555,201</u>	<u>4,046,965</u>
Recoverable amount <sup>1</sup>			<u>3,111,742</u>	<u>2,896,018</u>

<sup>1</sup> Including Group's share in the Joint Venture (note 12)

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**6. Fleet (continued)**

Summary of fleet at 31st December 2009 (including a share of fleet of joint venture):

<u>Type of vessel</u>	<u>Number of vessels</u>		<u>Dwt'000</u>		<u>Carrying value U.S.\$ million</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Oil tankers & product carriers	66	62	4,529	3,996	1,938	1,683
Bulk Carriers	1	2	26	51	3	4
	<u>67</u>	<u>64</u>	<u>4,555</u>	<u>4,047</u>	<u>1,941</u>	<u>1,687</u>

As at 31st December 2009 the directors carried out an impairment review of the carrying amounts of the vessels, on a vessel by vessel basis. Recoverable amount of the vessels was concluded to be the higher of their market values as assessed by the directors at the period end and supported by independent professional valuations, and their value in use. As a result of this review management concluded that the fleet was not impaired.

Value in use calculations involve estimating discounted future cash flows, which requires management to make judgments about long-term forecasts of future revenues and costs related to the vessels as well as judgements about the discount factors to be used in the calculations. These forecasts are uncertain as they require assumptions about demand for services, future market conditions and future technological developments. Value in use calculations for the Group are mainly sensitive to estimated freight rates and the discount factor applied in the calculations. The sensitivity of the value in use calculations to changes in freight rates and discount rates, all other things being equal, has been assessed by calculating the maximum adjustment to estimates that would not result in an impairment charge. The results of this assessment are as follows.:

- A decrease in freight rates by 3% over the remaining life of vessels would not lead to impairment of the fleet.
- An increase in discount rates by 0.5% would not lead to impairment of the fleet.

The main assumptions used in performing calculations of value in use were:

- Freight rate estimates in the period 2010 to 2012 based on Forward Freight Agreements published by The Baltic Exchange for the respective conventional route that applies to each vessel, (2008 – actual rates for long term charters and average December 2008 time charter equivalent rates);
- Freight rates after 2012 based on the 4 - 11 year historic average of the world scale for the respective conventional route that apply to each vessel (2008 – 1.5% - 2% growth);
- Operating expenses estimated based on operating budgets for 2010 increasing at an inflation rate of 3% per annum thereafter (2008 – 2%);
- A discount rate of between 7.0% to 7.65%, depending on the remaining useful economic life of the vessel (2008 – 8% - 11%);
- An annual utilisation of the vessels of 362 days less scheduled drydocking estimated at 28 days every 2.5 years (2008 – 350 days).

The assumptions made in calculating the discount rate were (2008 - none):

- 60%/40% debt to equity structure;
- cost of debt equal to the aggregate of 1.75% loan margin and US Dollar swap rate depending on the remaining useful economic life of each vessel;
- Market beta of 1.01 and of 1.3 for the Marpetrol fleet;
- Market risk premium of 5%; and
- Risk free rate based on US Government bonds depending on the remaining useful economic life of each vessel.

The impact of changes in estimate between 2008 and 2009 did not have any impact on results for the period as no impairment loss has been recognised in 2009.

As at 31st December 2009 the directors have reassessed the residual value of the fleet in accordance with the Group's accounting policy (see note 2 (o)). The effect of this change in estimate on the results for the period has been to decrease the depreciation charge by U.S.\$4.4 million (2008- increase by U.S.\$6.5 million).

Included in the Group's fleet are vessels held under finance leases with an aggregate carrying value of U.S.\$8.4 million (2008 – U.S.\$11.2 million). The depreciation charge in the period in respect of these vessels amounted to U.S.\$0.5 million (2008 – U.S.\$0.6 million).

As at 31st December 2009 56 vessels (2008 - 57 vessels) were pledged as security under secured bank loans. The aggregate carrying value of the vessels is U.S.\$1.4 billion (2008 – U.S.\$1.6 billion), market value is U.S.\$1.4 billion (2008- U.S.\$2.4 billion).

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**7. Tonnage Under Construction**

	Note	2009 U.S.\$'000	2008 U.S.\$'000
Cost			
At 1st January		427,072	300,399
Expenditure in period		98,651	259,438
Transferred to vessels	6	(340,830)	(128,605)
Transferred to drydock costs	6	(6,400)	(4,160)
At 31st December		<u>178,493</u>	<u>427,072</u>
Impairment provision			
At 1st January		1,025	-
Provided during the period		-	1,025
Reversal of impairment		(1,025)	-
At 31st December		<u>-</u>	<u>1,025</u>
Carrying amount			
At 31st December		<u>178,493</u>	<u>426,047</u>
Total deadweight tonnage (dwt)		<u>480,000</u>	<u>1,408,000</u>

Tonnage under construction at 1st January 2009 comprised six Suezmax tankers, four Asphalt carriers and four Aframax tankers scheduled for delivery between May 2009 and October 2010 at a total contracted cost to the Group of U.S.\$788.5 million.

On 5th February 2009 the Group terminated the contracts for the construction of two Asphalt carriers the contracted cost of which was U.S.\$37.5 million.

Vessels delivered during the period comprised the following:

<u>Vessel Name</u>	<u>Vessel Type</u>	<u>Delivery Date</u>
NS Arctic	Aframax tanker	4th May
NS Antarctic	Aframax tanker	8th June
NS Asia	Aframax tanker	21st July
NS Africa	Aframax tanker	21st September
NS Burgas	Suezmax tanker	28th October

On 18th June 2009 the Group signed an addendum to agreements for the construction of six Suezmax tankers cancelling two of the newbuildings and reducing the construction price of the other four. The net change in the total contracted cost as a result of this agreement was U.S.\$171.1 million.

Tonnage under construction at 31st December 2009, comprised three Suezmax tankers and two Asphalt carriers scheduled for delivery in 2010 at a total contracted cost to the Group of U.S.\$232.5 million. As at 31st December 2009 U.S. \$175.9 million of the contracted costs had been paid.

Included in expenditure in the period is an amount of U.S.\$Nil (2008 – U.S.\$0.4 million) representing interest capitalised during the period in accordance with the Group's accounting policy concerning borrowing costs (note 2(q)).

As at 31st December 2008 the Company recognised an impairment loss and an onerous contracts provision relating to newbuilding contracts and amounting to U.S.\$1.025 million and U.S.\$1.172 million correspondingly.

As at 31st December 2009 both provisions were released due to an increase in the market value of these newbuilding contracts.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**8. Other Fixed Assets**

	Note	Land and Buildings U.S.\$'000	Miscellaneous U.S.\$'000	Total U.S.\$'000
<b>Cost</b>				
At 1st January 2008		33,076	39,642	72,718
Expenditure in period		443	549	992
Transferred from investment property	9	1,216	-	1,216
Transferred to investment property	9	(1,459)	(150)	(1,609)
Transferred from other fixed assets under construction	10	4,209	3,068	7,277
Disposal of assets		(2,381)	(3,421)	(5,802)
Transferred to non-current assets held for sale	13	(7,388)	(4,525)	(11,913)
Exchange adjustment		172	(5,906)	(5,734)
At 31st December 2008		27,888	29,257	57,145
Expenditure in period		-	44	44
Transferred from investment property	9	628	1	629
Transferred to investment property	9	(1,185)	(30)	(1,215)
Transferred from other fixed assets under construction	10	584	2,287	2,871
Disposal of assets		(53)	(3,299)	(3,352)
Transferred to non-current assets held for sale	13	(511)	(4,126)	(4,637)
Exchange adjustment		(61)	(66)	(127)
At 31st December 2009		<u>27,290</u>	<u>24,068</u>	<u>51,358</u>
<b>Depreciation</b>				
At 1st January 2008		21,298	28,356	49,654
Charge for the period		2,283	3,318	5,601
Transferred from investment property	9	874	-	874
Transferred to investment property	9	(1,445)	(50)	(1,495)
Disposal of assets		(2,377)	(3,276)	(5,653)
Transferred to non-current assets held for sale	13	(5,146)	(1,592)	(6,738)
Exchange adjustment		191	(5,276)	(5,085)
At 31st December 2008		15,678	21,480	37,158
Charge for the period		992	2,030	3,022
Transferred from investment property	9	515	1	516
Transferred to investment property	9	(876)	(12)	(888)
Disposal of assets		(13)	(3,190)	(3,203)
Transferred to non-current assets held for sale	13	(511)	(3,917)	(4,428)
Exchange adjustment		(9)	(44)	(53)
At 31st December 2009		<u>15,776</u>	<u>16,348</u>	<u>32,124</u>
<b>Net book value</b>				
At 31st December 2009		<u>11,514</u>	<u>7,720</u>	<u>19,234</u>
At 31st December 2008		<u>12,210</u>	<u>7,777</u>	<u>19,987</u>

Buildings comprise offices in Novorossiysk, Russia.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**9. Investment Property**

Investment property includes real estate properties in the surrounding area of the Group's headquarters.

	Note	2009 U.S.\$'000	2008 U.S.\$'000
<b>Cost</b>			
At 1st January		6,645	6,554
Expenditure in period		-	21
Transferred from other fixed assets	8	1,215	1,609
Transferred to other fixed assets	8	(629)	(1,216)
Transferred to non-current assets held for sale	13	-	(323)
At 31st December		<u>7,231</u>	<u>6,645</u>
<b>Depreciation</b>			
At 1st January		5,315	4,831
Charge for the period		204	186
Transferred from other fixed assets	8	888	1,495
Transferred to other fixed assets	8	(516)	(874)
Transferred to non-current assets held for sale	13	-	(323)
At 31st December		<u>5,891</u>	<u>5,315</u>
<b>Net book value</b>			
At 31st December		<u>1,340</u>	<u>1,330</u>
<b>Rental Income</b>			
		<u>2,397</u>	<u>2,947</u>
<b>Direct operating expenses</b>			
		<u>1,927</u>	<u>2,305</u>
<b>Market value</b>			
		<u>32,146</u>	<u>38,700</u>

Management's estimation of market value of investment property are supported by independent professional valuations carried out in January 2010. Current market prices were available for the determination of fair value.

**10. Other Fixed Assets Under Construction**

	Note	2009 U.S.\$'000	2008 U.S.\$'000
At 1st January		12,223	10,041
Expenditure in period		9,758	18,405
Transferred to other fixed assets	8	(2,871)	(7,277)
Disposals		(11,874)	(6,519)
Exchange adjustment		(200)	(2,427)
At 31st December		<u>7,036</u>	<u>12,223</u>

**11. Investments**

		2009 U.S.\$'000	2008 U.S.\$'000
Investments in associates	a)	1,159	1,008
Long-term bank deposits held to maturity		4,187	980
Other investments		-	495
Non-current asset investments		<u>5,346</u>	<u>2,483</u>
Current asset investments	b)	<u>3,215</u>	<u>7,503</u>
		<u>8,561</u>	<u>9,986</u>



**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**11. Investments (continued)**

## a) Investments in associates

In 2008 the Group acquired 20% of the ordinary share capital of Chart Pilot LLC. At 31st December 2009 the Group had participating interests in the following active associate:

<u>Name</u>	<u>Holding</u>	<u>Country of Incorporation</u>	<u>Principal Activity</u>
Chart Pilot LLC	20%	Russia	Production and distribution of navigation equipment

Movements in investments in associate during the year was as follows:

	2009 U.S.\$'000	2008 U.S.\$'000
At 1st January	1,008	-
Share of gains in associate	151	170
Investments / acquisitions during the period	-	838
At 31st December	<u>1,159</u>	<u>1,008</u>

Summarised financial information in respect of the Group's associate is set out below:

	2009 U.S.\$'000	2008 U.S.\$'000
Total assets	4,109	3,301
Total liabilities	(1,508)	(1,316)
Net assets	<u>2,601</u>	<u>1,985</u>
Group's share of associate net assets	<u>520</u>	<u>397</u>
Revenues	<u>8,474</u>	<u>8,120</u>
Gain for the period	<u>757</u>	<u>848</u>
Group's share of associate gains for the period	<u>151</u>	<u>170</u>

## b) Current asset investments:

	2009 U.S.\$'000	2008 U.S.\$'000
Short-term equity investments available for sale at fair value	2,337	1,057
Short-term bank deposits held to maturity	878	6,446
	<u>3,215</u>	<u>7,503</u>

In July 2006 the Group acquired 280,455 ordinary shares of JSC Rosneft, a Russian public company, which is State controlled, for a consideration of U.S.\$2.122 million. The shares are stated in these financial statements at market value. The difference between the market value of these shares and the cost of acquisition has been accounted for as a movement in fair value reserve with the exception of impairment losses which are recognised directly to the income statement.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**12. Joint Venture**

The Group has a 50% interest in Vestoro Holdings Limited being an active joint venture:

On 16th March 2006 Intrigue Shipping Inc. established a joint venture, Vestoro Holdings Limited, together with a subsidiary of OAO Sovcomflot in which each venturer obtained a 50% interest with equal rights and obligations. In August 2006 the joint venture acquired 91.33% of the share capital of 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 amounts are included in the Group's financial statements as a result of proportionate consolidation:

	2009 U.S.\$'000	2008 U.S.\$'000
<b>Statement of financial position</b>		
Fleet	102,212	113,612
Other non current asset	5,949	1,113
Current assets	11,334	6,293
Non-current liabilities	82,758	80,635
Current liabilities	10,773	12,933
<b>Income Statement</b>		
Income	27,438	29,736
Expenses	33,256	14,615

**13. Non-Current Assets Held for Sale**

	2009 U.S.\$'000	2008 U.S.\$'000
At 1st January	5,175	12,367
Expenditure in period	167	-
Transferred from fleet	-	7,470
Transferred from drydock cost	-	876
Transferred from other fixed asset	209	5,175
Disposals	-	(20,713)
At 31st December	5,551	5,175

Non-current assets held for sale comprise buildings and land of non-core activities. During 2008, when the assets were classified as held for sale, the market deteriorated, and the assets were not sold. In December 2009 the Company obtained new independent valuations of the market value of the assets, and the assets continue to be actively marketed at a price that is reasonable in new market conditions.

**14. Inventories**

	2009 U.S.\$'000	2008 U.S.\$'000
Bunkers	14,497	8,535
Lubricants	6,421	6,651
Victualling and slopchest	619	555
Raw materials, spares and finished goods	3,577	1,985
	25,114	17,726

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**15. Trade and Other Receivables**

	2009 U.S.\$'000	2008 U.S.\$'000
Amounts due from charterers	22,044	39,182
Allowance for doubtful debts	(1,125)	(927)
	<u>20,919</u>	<u>38,255</u>
Casualty and other claims	7,097	5,884
Guarantee deposits	3,414	781
Agents' balances	2,560	1,712
Other debtors	8,766	9,486
Prepayments	6,291	3,367
Voyage suspense accounts	6,275	2,495
Accrued income	3	74
	<u>55,325</u>	<u>62,054</u>

Amounts due from charterers represent amounts receivable from charterers of vessels owned or leased by the Group in respect of voyage charters, time charters, and contracts of affreightment.

Freight from voyage charters is receivable upon discharge of the vessel and hire from time charters is receivable monthly in advance over the duration of the time charter voyage. No interest is charged on trade receivables. Amounts due from charterers are provided for based on estimated irrecoverable amounts from the provision of services, determined by reference to past default experience.

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. U.S.\$14.78 million (2008 – U.S.\$28.21 million) of amounts due from charterers are neither past due nor impaired.

Included in amounts due from charterers are debtors with a carrying amount of U.S.\$6.14 million (2008 – U.S. \$10.05 million) which are past due at the reporting date for which the Group has not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

The ageing analysis of these receivables is as follows:

	2009 U.S.\$'000	2008 U.S.\$'000
Up to one month	3,429	7,873
One to two months	770	-
Two to three months	550	-
Three to four months	86	200
More than four months	1,308	1,977
	<u>6,143</u>	<u>10,050</u>

Movement in the allowance for doubtful debts:

	2009 U.S.\$'000	2008 U.S.\$'000
Balance at the beginning of the period	927	437
Amounts written off during the period	(47)	-
Amounts recovered during the period and recognised in the income statement	(421)	-
Increase in allowance recognised in the income statement	676	501
Exchange adjustments	(10)	(11)
	<u>1,125</u>	<u>927</u>

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**15. Trade and Other Receivables (Continued)**

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and any past default experience of the trade receivable. The concentration of credit risk is limited due to the customer base being large and unrelated. As at 31st December 2009 amounts due from charterers included one (2008 - one) charterer with a balance of freight and hire due representing 12% (2008 – 9%) of the total amounts due. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

**16. Share Capital**

Authorised, issued and fully paid share capital includes:

	Ordinary voting shares with nominal value of RUR 1 each		Preference non-voting class "A" shares with nominal value of RUR 1 each		Total
	Number	U.S.\$'000	Number	U.S.\$'000	U.S.\$'000
Balance at 1st January 2008 and 31st December 2008	375,840,500	13,346	125,280,000	4,449	17,795
First buy-back (a)	-	-	(48,719,980)	(1,729)	(1,729)
Second buy-back (b)	-	-	(39,740,098)	(1,411)	(1,411)
Balance at 31st December 2009	<u>375,840,500</u>	<u>13,346</u>	<u>36,819,922</u>	<u>1,309</u>	<u>14,655</u>

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' meeting of the Company.

Holders of preference shares have no right of conversion or redemption, and are entitled to an annual dividend equal to the greater of 3% of the nominal values 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. 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.

**a) First buy-back**

On 10th December 2008 the Company's Board of Directors resolved to buy back Novoship preference shares in the amount of not more than 50,112,050 shares at the fixed price of RUR 21.66/share (USD 0.69/share). During the reporting period end 31st December 2009 the Company bought back only 48,719,980 preference shares. On 10th June 2009 the Company's Shareholders resolved in a General Meeting to reduce the share capital of the Company through cancellation of the purchased shares. The share capital of the Company was reduced by the amount of U.S.\$1.729 million.

**b) Second buy-back**

On 10th June 2009 the Company's Shareholders resolved in a General Meeting to hold a second buy-back of Novoship preference shares at the fixed price of RUR 21.66/share (USD 0.69/share). During 2009, 39,740,098 preference shares were repurchased which represented 8% of share capital and thus the share capital of the Company was reduced by the amount of U.S.\$1.411 million.

**Treasury shares**

As at 31st December 2009 the Group held 87,246,219 ordinary shares which comprise 23% of issued ordinary shares (31st December 2008 - 87,246,219 ordinary shares, and 84,490,031 preference shares).

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**17. Cash and Cash Equivalents**

	2009 U.S.\$'000	2008 U.S.\$'000
Cash in hand and at bank	98,126	127,832
Retention accounts	6,800	10,815
Restricted deposits	23,868	1,531
	<u>128,794</u>	<u>140,178</u>

Cash on retention accounts is accumulated to cover future loan and interest repayments.

Restricted deposits include U.S.\$15 million pledged with BNP Paribas as additional security in order to ensure compliance with the terms and conditions of the relevant loan facilities and U.S.\$8.7 million held as a guarantee for settlements in respects of legal claims (note 40).

Under terms of loan agreements (note 18), the Group has to maintain a minimum cash balance of U.S.\$46 million (2008 – U.S.\$46 million).

**18. Secured Bank Loans**

The balances of the loans at 31st December 2009 which include the Group's share in the loans of the joint venture are summarised as follows:

	2009 U.S.\$'000	2008 U.S.\$'000
Repayable:		
- within twelve months after the end of the reporting period	77,684	131,370
- between one to two years	77,612	77,632
- between two to three years	117,612	77,632
- between three to four years	124,611	77,632
- between four to five years	103,524	124,632
- after more than five years	227,993	258,664
	<u>729,036</u>	<u>747,562</u>
Less current portion	(77,684)	(131,370)
Long-term balance	<u>651,352</u>	<u>616,192</u>

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 lenders have first preferred mortgages on the Group's vessels with an aggregate market value as at 31st December 2009 of U.S.\$1.4 billion (2008- U.S.\$2.4 billion).

The Group's debt financing is subject to certain covenants. The Group complied with all debt covenants, including equity ratios, during the years ended 31st December 2009 and 2008.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**18. Secured Bank Loans (Continued)**

	Contractual interest rate	2009 U.S.\$'000	2008 U.S.\$'000
<b>Current portion of long term debt</b>			
<u>Secured bank loans:</u>			
USD-denominated	Variable at LIBOR+ 0.68-1%	66,456	120,146
USD-denominated	Fixed at 5.25%	<u>11,228</u>	<u>11,224</u>
		<u>77,684</u>	<u>131,370</u>
<b>Non-current portion of long term debt</b>			
<u>Secured bank loans:</u>			
USD-denominated	Variable at LIBOR+ 0.68-1%	573,567	527,175
USD-denominated	Fixed at 5.25%	<u>77,785</u>	<u>89,017</u>
		<u>651,352</u>	<u>616,192</u>
<b>Total</b>		<u><u>729,036</u></u>	<u><u>747,562</u></u>

**19. Finance Lease Liabilities**

	2009		2008	
	Present value of minimum lease payments U.S.\$'000	Minimum lease payments U.S.\$'000	Present value of minimum lease payments U.S.\$'000	Minimum lease payments U.S.\$'000
Repayable				
- within twelve months after the end of the reporting period	771	1,273	733	1,310
- between one to five years inclusive	<u>7,181</u>	<u>8,211</u>	<u>7,950</u>	<u>9,393</u>
	<u>7,952</u>	9,484	<u>8,683</u>	10,703
Future interest expense		<u>(1,532)</u>		<u>(2,020)</u>
		<u>7,952</u>		<u>8,683</u>

The Group, through the acquisition of Marpetrol in 2006, acquired obligations under two bareboat charter agreements entered into by Marpetrol on 16th February 2005 when it sold and leased back two of its vessels for an aggregate consideration of U.S.\$26 million at an effective interest rate of 6.79% per annum.

The charter hires are payable monthly in advance at daily rates of U.S.\$3,743, from inception through to year three, and U.S.\$3,493 from year four through to year eight. At the end of the principal lease period Marpetrol has the option to extend the leases for two five year periods declarable in years eight and thirteen respectively.

Both Marpetrol and the lessor have call and put options, respectively, requiring the lessor to sell the vessels to the Group or the Group to buy the vessels from the lessor, at the end of the principal lease period and at the end of each of the five year extension periods at predetermined prices ranging from U.S.\$7.75 million to U.S.\$2.75 million.

**Notes to the Consolidated Financial Statements (continued)**  
31st December 2009

**20. Retirement Benefit Obligations**

	2009 U.S.\$'000	2008 U.S.\$'000
<u>Assets</u>		
Past service cost related to long-term service retirement benefit plans	3,590	4,044
<u>Liabilities</u>		
Post retirement pension benefit plans	2,278	1,587
Long-term service retirement benefit plans	6,455	6,218
	<u>8,733</u>	<u>7,805</u>

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

Changes in the present value of the defined obligations under post retirement benefit plans are as follows:

	2009 U.S.\$'000	2008 U.S.\$'000	2007 U.S.\$'000	2006 U.S.\$'000
Present value of obligation at 1st January	1,587	2,066	1,925	-
Interest cost	157	134	195	-
Benefits paid	(658)	(780)	(817)	-
Exchange rate differences	(73)	(290)	120	-
Actuarial loss on obligation	1,265	457	643	1,925
	<u>2,278</u>	<u>1,587</u>	<u>2,066</u>	<u>1,925</u>

Changes in the present value of the defined obligations under long-term service retirement benefit plans are as follows:

	2009 U.S.\$'000	2008 U.S.\$'000	2007 U.S.\$'000	2006 U.S.\$'000
Present value of obligation at 1st January	6,218	2,278	-	-
Current service cost	376	122	-	-
Interest cost	382	148	-	-
Past service costs	-	4,322	2,278	-
Benefits paid	(135)	(416)	-	-
Exchange rate differences	(65)	(414)	-	-
Actuarial (gain) / loss on obligation	(321)	178	-	-
	<u>6,455</u>	<u>6,218</u>	<u>2,278</u>	<u>-</u>

The amounts recognised in the income statement during the period are as follows:

	Post retirement pension benefit plans		Long-term service retirement benefit plans	
	2009 U.S.\$'000	2008 U.S.\$'000	2009 U.S.\$'000	2008 U.S.\$'000
Current service cost	-	-	376	122
Interest cost	157	134	382	148
Past service costs	-	-	454	278
Actuarial loss / (gain) recognised in period	1,265	457	(321)	178
	<u>1,422</u>	<u>591</u>	<u>891</u>	<u>726</u>

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**20. Retirement Benefits Obligations (Continued)**

The principal actuarial assumptions used in measurement of the defined benefit obligations at the end of the reporting period are as follows:

	2009	2008
Discount rate for cash flows in Russian Roubles	8.50%	9.95%
Discount rate for cash flows in US Dollars	4.10%	4.50%
Future salary increases in Russian Roubles	10.00%	10.00%
Future salary increases in US Dollars	2.00%	2.00%
Future pension increases	1.00%	3.00%
Life expectancy in years of a male pensioner retiring at the age of 60	10	10
Life expectancy in years of a female pensioner retiring at the age of 55	15	15

**21. Deferred Tax Liabilities**

Deferred tax arises mainly on the activities of Marpetrol under the Spanish Corporate Tax Law as follows:

	Assets		Liabilities		Net	
	2009 U.S.\$'000	2008 U.S.\$'000	2009 U.S.\$'000	2008 U.S.\$'000	2009 U.S.\$'000	2008 U.S.\$'000
Vessels	-	-	(9,003)	(11,601)	(9,003)	(11,601)
Other assets/(liabilities)	1,298	1,048	(1,333)	(1,540)	(35)	(492)
Net tax assets/(liabilities)	<u>1,298</u>	<u>1,048</u>	<u>(10,336)</u>	<u>(13,141)</u>	<u>(9,038)</u>	<u>(12,093)</u>

The movement of temporary differences were as follows:

	1-Jan-2008 U.S.\$'000	Charged to income U.S.\$'000	Recognised in other comprehensive income U.S.\$'000	Effect of change in exchange rates U.S.\$'000	31-Dec-2008 U.S.\$'000
	Vessels	(13,563)	1,020	-	942
Other assets/(liabilities)	(3,238)	2,262	315	169	(492)
	<u>(16,801)</u>	<u>3,282</u>	<u>315</u>	<u>1,111</u>	<u>(12,093)</u>

	1-Jan-2009 U.S.\$'000	Charged to income U.S.\$'000	Recognised in other comprehensive income U.S.\$'000	Effect of change in exchange rates U.S.\$'000	31-Dec-2009 U.S.\$'000
	Vessels	(11,601)	(49)	-	2,647
Other assets/(liabilities)	(492)	(462)	(101)	1,020	(35)
	<u>(12,093)</u>	<u>(511)</u>	<u>(101)</u>	<u>3,667</u>	<u>(9,038)</u>



**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**22. Trade and Other Payables**

	2009 U.S.\$'000	2008 U.S.\$'000
Trade creditors	16,592	19,783
Other creditors and accruals	21,053	20,129
Accrued interest	1,602	3,428
Deferred income	10,144	11,521
	<u>49,391</u>	<u>54,861</u>

**23. Derivative Financial Instruments**

	2009 U.S.\$'000	2008 U.S.\$'000
a) Hedging instruments	1,571	2,230
b) Classified at fair value through profit or loss	36,878	44,759
	<u>38,449</u>	<u>46,989</u>

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

## a) Hedging instruments

	2009 U.S.\$'000	2008 U.S.\$'000
At 1st January	2,230	-
(Released) / provided during the period and (credited) / debited to other comprehensive income	(1,301)	1,896
Removed from equity and included in income statement	642	334
At 31st December	<u>1,571</u>	<u>2,230</u>

The Group entered into interest rate swap agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations. The Group has the following interest rate swap agreements, amortising in accordance with the initial repayment schedule of the relevant loans, at fixed rates compared to the three months LIBOR for US\$ as follows (in thousand of US\$):

Type of Instrument	Notional amount 2009 U.S.\$'000	Notional amount 2008 U.S.\$'000	Fixed interest rate	Expiry date
Swap	36,750	39,750	4.035%	30th November 2010
Swap	24,500	26,500	3.650%	30th November 2010
Swap*	36,750	39,750	2.400%	29th November 2013

\* The bank has the option to early terminate the swap every quarter coinciding with each of the next repayment instalments of the loan.

Had interest rates been 100 basis points higher / lower and all other variables held constant, the Group's retained reserves and profit for the period ended 31st December 2009 would increase / decrease by approximately U.S.\$1.846 thousand and U.S.\$4 thousand, respectively.

Notes to the Consolidated Financial Statements (continued)  
31st December 2009

23. Derivative Financial Instruments (Continued)

b) Classified at fair value through profit or loss

	2009 U.S.\$'000	2008 U.S.\$'000
At 1st January	44,759	7,902
Premiums (paid) / received during the period	(10,101)	3,187
Fair value of instruments at inception	-	8,775
(Released) / provided for during the period and (credited) / debited to the income statement	2,220	38,337
Premiums released on instruments terminated during the period and credited to the income statement	-	(1,480)
Terminated during the period	-	(11,962)
At 31st December	<u>36,878</u>	<u>44,759</u>

All derivative financial instruments classified at fair value though profit or loss at 31st December 2009 and 31st December 2008 are interest rate financial instruments.

In addition to the interest rate swaps designated as hedging instruments, as at 31st December 2009 the Group had the following interest rate financial instruments:

Type of instrument	Notional amount 2009 U.S.\$'000	Notional amount 2008 U.S.\$'000	Interest rate	Expiry date
<b>Swaption</b>				
IRS	50,000	50,000	4.59%	5th March 2012
Swaption	50,000	50,000	4.59%	6th March 2014
<b>Swaption</b>				
IRS	55,000	55,000	4.40%	22nd May 2012
Swaption	55,000	55,000	4.40%	22nd May 2014
<b>Swaption</b>				
IRS	50,000	50,000	4.17%	22nd May 2012
Swaption	50,000	50,000	4.17%	22nd May 2014
<b>Collar, sold Cap and knock in</b>				
Swaption	50,000	50,000	3.50%	18th March 2013
Knock in floor	50,000	50,000	4.50%	17th March 2014
Sold Cap	50,000	50,000	5.00%	18th March 2013
<b>Collar and Knock out</b>				
Knock out Cap	50,000	50,000	5.90%/7.00%	1st July 2011
Knock in floor	50,000	50,000	4.48%	1st January 2014
<b>Callable</b>				
IRS	50,000	50,000	3.80%	22nd October 2010
Swaption	50,000	50,000	3.80%	22nd October 2013
<b>Callable</b>				
IRS	50,000	50,000	2.89%	29th November 2010
Swaption	50,000	50,000	2.89%	29th November 2010

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**23. Derivative Financial Instruments (Continued)**

b) Classified at fair value through profit or loss (continued)

Type of instrument	Notional amount 2009 U.S.\$'000	Notional amount 2008 U.S.\$'000	Interest rate	Expiry date
<b>Swaption</b>				
Swaption	50,000	50,000	4.00%	28th November 2011
Swaption	50,000	50,000	4.00%	27th November 2012
Swaption	50,000	50,000	4.00%	27th November 2013
Swaption	50,000	50,000	4.00%	28th November 2014
<b>Callable</b>				
Swaption	-	50,000	2.87%	18th January 2011
IRS	50,000	50,000	2.87%	18th January 2011
<b>Collar and knock in / out</b>				
Knock in floor	50,000	50,000	3.62%	25th February 2013
Knock out Cap	50,000	50,000	3.62%	25th February 2013

If interest rates had been 100 basis points higher / lower and all other variables held constant, the Group's retained reserves and profit for the period ended 31st December 2009 would increase / decrease by approximately U.S.\$16.722 million and U.S.\$16.574 million respectively due to the change in the fair value of the derivative financial instruments held for trading through profit or loss.

The net gain / (loss) in derivative financial instruments classified at fair value through profit or loss charged to the income statement is analysed as follows:

	2009 U.S.\$'000	2008 U.S.\$'000
Movement in interest rate instruments	7,881	(38,269)
Movement in bunker price instruments	-	(68)
Premiums released on termination	-	1,480
	<u>7,881</u>	<u>(36,857)</u>

All derivative financial instruments classified at fair value through profit or loss are recorded in the statement of financial position as current liabilities.

**24. 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 31st December 2009 the Company had retained earnings, including the profit for the current year, of U.S.\$75.9 million (2008: U.S.\$139.1 million).

A dividend of U.S.\$0.06/RUR2.05 per share (2008: U.S.\$0.07/RUR1.5 per share) on both the ordinary and the preference share was declared and paid during the period.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**25. General and Administrative Expenses**

	2009 U.S.\$'000	2008 U.S.\$'000
Administration expenses	15,980	26,163
Payroll taxes	899	1,534
	<u>16,879</u>	<u>27,697</u>

Administration expenses are analysed as follows:

	2009 U.S.\$'000	2008 U.S.\$'000
Head office costs	7,985	12,093
Overseas offices costs and other general expenses	5,324	12,095
Legal and professional fees	2,147	1,037
Audit and accountancy fees	524	938
	<u>15,980</u>	<u>26,163</u>

**26. Result on Sale of Assets**

	2009 U.S.\$'000	2008 U.S.\$'000
(Loss) / gain on disposal of vessels	(2,035)	26,737
Gain on disposal of other assets	-	190
	<u>(2,035)</u>	<u>26,927</u>

**27. Other Taxes**

	2009 U.S.\$'000	2008 U.S.\$'000
Russian Federation taxes		
- Irrecoverable value added tax	1,958	1,744
- Property tax	1,596	1,707
- Other Russian taxes	151	640
	<u>3,705</u>	<u>4,091</u>
Non-income based taxes		

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**28. Net Other Operating Income**

Other operating income arises on activities of Russian shore-based subsidiaries.

	2009 U.S.\$'000	2008 U.S.\$'000
Gross revenues	21,382	25,571
Cost of sales		
- Wages and salaries	(6,773)	(8,774)
- Social security costs	(1,648)	(2,154)
- Other cost of sales	(4,187)	(6,262)
Administrative expenses	(4,019)	(4,810)
Other operating expenses	(106)	-
Net other operating income	<u>4,649</u>	<u>3,571</u>

**29. Employee Costs**

Employee costs recorded within Vessels' Running Costs, General and Administrative Expenses and Net Other Operating Income, are analysed as follows:

	2009 U.S.\$'000	2008 U.S.\$'000
Seafarers		
- Wages and salaries	58,500	60,539
- Long-term service defined benefit plans	275	25
- Social security costs	465	954
	<u>59,240</u>	<u>61,518</u>
Shore based staff		
- Wages and salaries	19,375	29,897
- Long-term service defined benefit plans	234	553
- Social security costs	2,997	4,335
	<u>22,606</u>	<u>34,785</u>
Total employee costs	<u>81,846</u>	<u>96,303</u>

The number of employees employed by the Group at 31st December 2009 was 2,714 (2008 – 2,984) comprising 1,336 crew (2008 – 1,264) and 1,378 shore-based staff (2008 – 1,720).

**Compensation of key management personnel**

The remuneration of directors and other members of key management were as follows:

	2009 U.S.\$'000	2008 U.S.\$'000
Short-term benefits	2,380	3,523
Post employment benefits	205	602
	<u>2,585</u>	<u>4,125</u>
Number of individuals to whom remuneration was paid	<u>13</u>	<u>18</u>

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**30. Income Taxes**

	2009 U.S.\$'000	2008 U.S.\$'000
Profit before tax	80,351	224,719
Income tax using the domestic corporation tax rate of 20% (2008-24%)	(16,070)	(53,933)
Non-deductible costs, net	(5,866)	(605)
Effect of change in tax rates	-	452
Effect of different tax rates in other tax jurisdictions:		
- Liberia, Malta, Marshall Islands and Spain	17,108	48,464
Corrections in respect of prior periods	-	(1,874)
Income tax expense	<u>(4,828)</u>	<u>(7,496)</u>
Components of income tax expense are:		
Current tax expense	4,317	10,778
Deferred tax expense / (release)	<u>511</u>	<u>(3,282)</u>
	<u>4,828</u>	<u>7,496</u>

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 Company and the Group's subsidiaries operating in Russia.

**31. Freight and Hire Receivable**

	2009 U.S.\$'000	2008 U.S.\$'000
Freight	269,848	465,032
Hire	232,632	272,771
Other income	<u>10,614</u>	<u>11,341</u>
	<u>513,094</u>	<u>749,144</u>

**32. Voyage Expenses and Commissions**

	2009 U.S.\$'000	2008 U.S.\$'000
Port expenses	54,440	55,891
Bunker	75,167	119,206
Commission	<u>10,729</u>	<u>18,426</u>
	<u>140,336</u>	<u>193,523</u>

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**33. Vessels' Running Costs**

	2009 U.S.\$'000	2008 U.S.\$'000
Crew cost	71,323	73,413
Technical	48,977	40,596
Insurance	11,091	11,399
State social contributions	465	954
Communication	835	1,202
Other	1,454	2,079
	<u>134,145</u>	<u>129,643</u>

**34. Cash Generated from Operations**

	2009 U.S.\$'000	2008 U.S.\$'000
Profit for the period before income taxes	80,351	224,719
Share of gains in associates	(151)	(170)
Depreciation and amortisation	79,677	81,188
Impairment of goodwill	-	5,719
Vessels' impairment provision	8,994	6,096
Provision for impairment of tonnage under construction	(1,025)	1,025
Onerous contract provision	(1,172)	1,172
Vessels' drydock cost amortisation	20,287	18,353
Loss / (gain) on sale of assets	2,035	(26,927)
Gain on disposal of other investments	(406)	-
Interest expense	29,996	35,247
Bank and other interest receivable	(5,647)	(12,193)
Financial expenses	2,191	2,754
(Gain) / loss on derivative financial instruments	(7,881)	38,269
Foreign exchange losses	3,510	14,747
Increase in provision for bad debts	245	490
Operating cash flows before movements in working capital	211,004	390,489
(Increase) /decrease in inventories	4,486	5,471
Decrease / (increase) in trade and other receivables	15,595	(6,921)
Decrease / (increase) in payables	(9,372)	6,234
Less: unrealised exchange gain included in working capital movements	(4,156)	(3,882)
Cash generated from operations	217,256	391,391
Interest received	5,647	9,734
Taxation paid	(7,175)	(11,517)
Net cash inflow from operating activities	<u>215,728</u>	<u>389,608</u>

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**35. Significant Subsidiary Companies**

In addition to the joint venture referred to in note 12, at 31st December 2009, the most significant subsidiaries of the Group comprised:

Name	Country of incorporation	Activity	Percentage of ownership (direct and indirect)
Intrigue Shipping Inc. and its subsidiaries	Liberia	Holding company	100%
	Liberia, Malta, UK	Vessel owning and operation	100%
Novoship Holdings Ltd. and its subsidiaries	Cyprus	Holding company	100%
	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 Centre LLC	Russia	Water sport activities	100%
FOTS LLC	Russia	Swimming pool	100%
ERNC LLC	Russia	Production and distribution of navigations equipment	80%
Telecomservice LLC	Russia	Internet and communication services	100%
Novomorsnab LLC	Russia	Freight and forwarding	100%
SSC LLC	Russia	Servicing of ships' safety equipment	100%
Novoship Training LLC	Russia	Crew training	100%
Novoshipstroy LLC	Russia	Construction services	100%
Stomatologiya LLC	Russia	Dentist	100%
Novotechservice LLC	Russia	Cleaning	100%
Novorosmedia LLC	Russia	Mass media	100%



**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**36. Financial Risk Management**

## a) Capital risk management

The capital structure of the Group consists of net debt and adjusted equity. The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to its shareholder and benefits for other stakeholders;
- to enhance the ability of the Group to invest in future projects by sustaining a strong financial position and high borrowing capacity;
- to provide an adequate return to its shareholder; and
- to maintain and improve the Group's investment grade credit rating.

The Group reviews its capital structure on a semi-annual basis. As part of this review, management makes adjustments to it in the light of changes in economic conditions and the risk characteristics relating to the Group's activities. In order to maintain or adjust its capital structure, the Group may repay existing secured term loans and revolving credit facilities, sell assets to reduce debt or adjust the amount of dividends paid to its shareholder.

The Group monitors its capital structure on the basis of the net debt ratio, the net adjusted debt ratio and compliance with certain externally imposed minimum capital requirements. The net debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net adjusted debt ratio is calculated as net debt divided by net debt plus total equity as adjusted for the excess of the market value of the fleet over its carrying amount as disclosed in note 6 ("total adjusted capital"). Net debt is calculated as the total of secured bank loans and finance lease liabilities, disclosed in notes 18 and 19 of the financial statements respectively, less cash and cash equivalents. Total equity comprises all components of equity.

Management believes that such an approach provides an efficient capital structure and an appropriate level of financial flexibility. During 2009 the Group's overall strategy remained unchanged from 2008. The debt to total equity ratio at 31st December 2009 and at 31st December 2008 and the total adjusted capital of the Group were as follows:

	2009 <u>U.S.\$'000</u>	2008 <u>U.S.\$'000</u>
Secured bank loans (note 18)	729,036	747,562
Finance lease liabilities (note 19)	7,952	8,683
Less: cash and cash equivalents	<u>(128,794)</u>	<u>(140,178)</u>
Net debt	608,194	616,067
Total equity	<u>1,528,363</u>	<u>1,466,957</u>
Total capital	<u><u>2,136,557</u></u>	<u><u>2,083,024</u></u>
Net debt ratio	<u><u>28.47%</u></u>	<u><u>29.58%</u></u>
	2009 <u>U.S.\$'000</u>	2008 <u>U.S.\$'000</u>
Total capital	2,136,557	2,083,024
(Deficit) / excess of market value of fleet over carrying value	<u>(142,490)</u>	<u>861,862</u>
Total adjusted capital	<u><u>1,994,067</u></u>	<u><u>2,944,886</u></u>
Net adjusted debt ratio	<u><u>30.50%</u></u>	<u><u>20.92%</u></u>

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**36. Financial Risk Management (Continued)**

## b) Categories of financial instruments

	2009	2008
	<u>U.S.\$'000</u>	<u>U.S.\$'000</u>
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	<u>197,764</u>	<u>219,036</u>
Total financial assets	197,764	219,036
Non-financial assets	<u>2,178,258</u>	<u>2,169,626</u>
Total assets	<u><u>2,376,022</u></u>	<u><u>2,388,662</u></u>
<b>Financial liabilities</b>		
Derivative instruments in designated hedge accounting relationships	1,571	2,230
Financial liabilities at fair value through profit or loss	36,878	44,759
Loans and payables	799,066	862,023
Amortised cost	<u>-</u>	<u>-</u>
Total financial liabilities	837,515	909,012
Non-financial liabilities	<u>10,144</u>	<u>12,693</u>
Total liabilities	847,659	921,705
Total equity	<u>1,528,363</u>	<u>1,466,957</u>
Total equity and liabilities	<u><u>2,376,022</u></u>	<u><u>2,388,662</u></u>

## c) Fair value of financial instruments

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

	<u>Carrying Value</u>		<u>Fair Value</u>	
	2009	2008	2009	2008
	<u>U.S.\$'000</u>	<u>U.S.\$'000</u>	<u>U.S.\$'000</u>	<u>U.S.\$'000</u>
<b>Financial liabilities</b>				
Analysed as follows:				
Secured bank loans at fixed interest rates	89,013	100,241	83,445	93,369
Secured bank loans at floating interest rates	<u>640,023</u>	<u>647,321</u>	<u>545,252</u>	<u>547,551</u>
	<u><u>729,036</u></u>	<u><u>747,562</u></u>	<u><u>628,697</u></u>	<u><u>640,920</u></u>

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**36. Financial Risk Management (Continued)**

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices (other than quoted prices included within Level 1) from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The following table provides an analysis of financial instruments as at 31st December 2009 that are measured subsequent to initial recognition at fair value, Grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1: fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data

	Level 1 U.S.\$'000	Level 2 U.S.\$'000	Level 3 U.S.\$'000	Total U.S.\$'000
<b>Financial assets</b>				
Quoted equity investments	2,337	-	-	2,337
	<u>2,337</u>	<u>-</u>	<u>-</u>	<u>2,337</u>
<b>Financial liabilities</b>				
Derivative financial instruments classified at fair value through profit or loss	-	36,878	-	36,878
Derivative instruments in designated hedge accounting relationships	-	1,571	-	1,571
Retirement benefit obligations	-	-	8,733	8,733
	<u>-</u>	<u>38,449</u>	<u>8,733</u>	<u>47,182</u>

There were no transfers between Level 1 and 2 during the period ended 31st December 2009.

Reconciliation of Level 3 Financial liabilities is presented in note 20. Total gain and losses on Level 3 Financial liabilities are recognised in the Consolidated Income Statement.

**d) Financial risk factors**

The Group's operations expose it to a number of risk factors including market risk (foreign currency risk, cash flow interest rate risk and spot market rate risk), credit risk and liquidity risk. The Group seeks to minimise potential adverse effects on the Group's financial performance by employing a sufficiently robust risk financial strategy to withstand prolonged adverse conditions in significant risk factors such as down-cycles in freight rates or unfavourable conditions in the financial markets.

The Group's results and cash flows are influenced by the success of the Group in managing these risk factors as detailed below.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**36. Financial Risk Management (Continued)**

## d) Financial Risk Factors (Continued)

Currency risk

The Group's economic environment is the international shipping market. This market utilises the U.S. Dollar as its functional currency. The majority of the Group's revenues and most of the operating expenses are in U.S. Dollars. Exposure to transaction risk arises because certain voyage expenses, vessel operating expenses, drydocking and overhead costs are denominated in currencies other than the U.S. Dollar, the most significant of which are the Euro, the Russian Rouble and the Pound Sterling. The Group utilises its revenues in Euros and Russian Roubles to mitigate its exposure to foreign currency risk fluctuations.

The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. There is a risk that currency exposure arising from the net assets of the Group's foreign operations will have a negative effect on the Group's cash flows. The Group has not entered into any forward contracts to hedge against this translation risk as the exposure is insignificant.

The carrying amounts of the Group's most significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2009 U.S.\$'000	2008 U.S.\$'000	2009 U.S.\$'000	2008 U.S.\$'000
Euro (EUR)	80	-	14,089	16,131
Russian Roubles (RUR)	15,930	12,017	17,455	70,955
Pounds Sterling (GBP)	20	7	-	1,531

Had the foreign exchange rate between the U.S. Dollar and the above currencies at 31st December increased by 10% (2008 – 10%) with all other variables held constant, the effect would be to decrease the monetary liabilities / assets as shown below.

	Liabilities		Assets	
	2009 U.S.\$'000	2008 U.S.\$'000	2009 U.S.\$'000	2008 U.S.\$'000
Euro (EUR)	7	-	1,281	1,466
Russian Roubles (RUR)	1,448	1,092	1,587	6,450
Pounds Sterling (GBP)	2	1	-	139

Had the foreign exchange rate between the U.S. Dollar and the above currencies at 31st December decreased by 10% (2008 – 10%) with all other variables held constant, the effect would be to increase the monetary liabilities / assets as shown below.

	Liabilities		Assets	
	2009 U.S.\$'000	2008 U.S.\$'000	2009 U.S.\$'000	2008 U.S.\$'000
Euro (EUR)	9	-	1,565	1,792
Russian Roubles (RUR)	1,770	1,335	1,939	7,884
Pounds Sterling (GBP)	2	1	-	170

Any percentage increase or decrease of the foreign exchange rate between the U.S. Dollars and the Group's significant currencies will have a proportionate effect on the foreign currency sensitivity analyses presented above.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**36. Financial Risk Management (Continued)**

## d) Financial Risk Factors (Continued)

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During 2009 all of the Group's borrowings were denominated in U.S. Dollars.

The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the Board of Directors. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate swaps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in note 23 of these financial statements.

The sensitivity analyses below have been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at 31st December 2009 was as follows:

	2009 U.S.\$'000	2008 U.S.\$'000
Total floating rate borrowings (gross of direct issue costs)	640,023	647,321
Notional amount of floating to fixed rate swaps	<u>(48,800)</u>	<u>(55,937)</u>
Net exposure to interest rate fluctuations	<u>591,223</u>	<u>591,384</u>
% of borrowing exposed to interest rate fluctuations	<u>92%</u>	<u>91%</u>

If interest rates had been 100 basis points higher / lower and all other variables held constant, the Group's:

- total interest payable, for the period ended 31st December 2009 would increase / decrease approximately by U.S.\$5.9 million (2008 – increase / decrease by U.S.\$5.9 million), excluding any interest capitalised. This is mainly attributable to the exposure of the Group's floating rate borrowings not hedged.

Spot market rate risk

The Group is exposed to spot market rate risk arising from the cyclical nature of the shipping industry that may lead to volatile changes in charter rates and vessel values that might adversely affect its position and financial performance. The Group is not engaged in any derivative forward freight agreements or futures. Exposure to spot market rate risk is managed by maintaining an optimal mix between vessels trading on time and voyage charters in accordance with the set policies of the Group. During the period 53.6% of the vessels' total trading days were on time charter (2008 – 57.21%) representing 48.6% (2008 – 37.91%) of freight and hire receivable. As at 31st December 2009, 52.7% of the vessels were on time charter (2008 – 53.8%).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from derivative financial instruments and deposits with financial institutions as well as exposure to charterers, including receivables and committed transactions.

Credit risk management in respect of charterers is disclosed in note 15 of these financial statements.

Management is of the opinion that the credit risk on liquid funds and derivative financial instruments is limited as counterparties are banks with high credit-ratings assigned by credit rating agencies. Cash and cash equivalents include deposits with two banks (2008 – three) representing 14.6% and 12.3% (2008 – 15.03%, 15.34% and 21.95%) of total deposits of U.S.\$32 million (2008 – U.S.\$74 million).

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**36. Financial Risk Management (Continued)**

## d) Financial Risk Factors (Continued)

Liquidity risk

Management has built an appropriate liquidity risk management framework for the management of short, medium and long-term funding and liquidity management requirements. Due to the dynamic nature of the shipping industry, the Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve revolving credit facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Less than 1 year U.S.\$'000	1 to 5 years U.S.\$'000	More than 5 years U.S.\$'000	Total U.S.\$'000
<u>At 31st December 2009</u>				
Trade and other payables	40,251	-	-	40,251
Derivative financial instruments	38,449	-	-	38,449
Minimum lease payments under finance leases	1,273	8,211	-	9,484
Pension liabilities	1,704	4,000	3,029	8,733
Secured bank loans	77,684	423,359	227,993	729,036
Interest payable on secured bank loans	11,140	30,106	6,886	48,132
	<u>170,501</u>	<u>465,676</u>	<u>237,908</u>	<u>874,085</u>
<u>At 31st December 2008</u>				
Trade and other payables	96,528	-	-	96,528
Derivative financial instruments	46,989	-	-	46,989
Minimum lease payments under finance leases	1,310	9,393	-	10,703
Pension liabilities	1,012	4,000	8,188	13,200
Secured bank loans	131,370	357,528	258,664	747,562
Interest payable on secured bank loans	18,877	50,576	13,969	83,422
	<u>296,086</u>	<u>421,497</u>	<u>280,821</u>	<u>998,404</u>

The Group's contractual commitments under its newbuilding programme referred to in note 7 are to be paid in 2010.

**37. 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:

	Preference shares 2009	Ordinary shares 2009	Preference shares 2008	Ordinary shares 2008
Issued shares at 1 January	125,280,000	375,840,500	125,280,000	375,840,500
Effect of own shares held	-	(87,246,219)	(38,553,985)	(87,246,219)
Effect of buy-back	(88,460,078)	-	-	-
Weighted average number of shares for the year ended 31 December	<u>36,819,922</u>	<u>288,594,281</u>	<u>86,726,015</u>	<u>288,594,281</u>

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**37. Earnings per Share (Continued)**

	2009 U.S.\$'000	2008 U.S.\$'000
Dividends declared on outstanding shares:		
Preference shares	2,473	3,002
Ordinary shares	19,387	22,464
Excess of the repurchase price for preference shares over their nominal value	-	35,239
Profit remaining undistributed:		
Preference shares	6,072	36,162
Ordinary shares	47,591	120,336
Profit for the year:	<u>75,523</u>	<u>217,203</u>
Profit for the year attributable to preference shareholders	8,545	74,403
Basic and diluted earning per preference share	U.S.\$0.23	U.S.\$0.86
Profit for the year attributable to ordinary shareholders	66,978	142,800
Basic and diluted earning per ordinary share	U.S.\$0.23	U.S.\$0.49

**38. Business Segmental Analysis**

The Group has two main categories of vessels: aframaxes and product carriers. For the purpose of management reporting these are divided into nine segments, as based on the technical specifications of each vessel and their ages. Identified reportable segments are managed separately because each type requires different approaches to technical and commercial management, measures for running cost reduction and comparable time-charter equivalent for analysis and activities improvements. These segments are:

Segment	Average age	Average DWT	Services
<u>Aframaxes</u>			
1. Krasnodar Type	6	115,675	crude oil transportation
2. Moscow Type	11	106,533	
3. L Type	2	115,842	
4. C Type	4	105,839	
5. C Water Type	4	105,794	
<u>Product carriers</u>			
6. Mountain Type	6	46,654	crude oil, petroleum, products, vegetable oils, fats, molasses, chemicals and caustic soda
7. P Type	2	40,021	
8. S Type	4	47,197	
9. Trogir type	13	40,051	

The accounting policies of the operating segments are identical to those described in the summary of significant accounting policies.

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**38. Business Segmental Analysis (Continued)**

## a) Segmental revenue

	2009 U.S.\$'000	2008 U.S.\$'000
Krasnodar Type	44,939	71,717
Moscow Type	65,330	115,553
S Type	32,137	51,540
L Type	47,926	66,398
C Type	94,885	163,593
C Water Type	46,350	68,408
Mountain Type	17,060	28,894
P Type	30,480	19,186
Trogir Type	84,108	98,159
Total revenue for all segments from external customers	463,215	683,448
Non-segmental results	21,951	35,960
Joint venture revenue	27,928	29,736
Consolidated revenue	513,094	749,144

## b) Reconciliation of reported segment profit to the consolidated profit for the year

	2009 U.S.\$'000	2008 U.S.\$'000
Krasnodar Type	14,143	27,018
Moscow Type	12,596	45,719
S Type	272	15,792
L Type	14,894	30,452
C Type	27,000	70,586
C Water Type	13,808	27,902
Mountain Type	1,803	10,236
P Type	12,168	7,497
Trogir Type	20,072	35,334
Total profit for all segments	116,756	270,536
Joint venture operating results	11,316	8,765
Profit on vessels trading not allocated to a particular segment	4,111	22,723
Depreciation	(22,230)	(18,563)
Administrative expenses	(17,124)	(28,187)
Net other operating income and expenses	6,113	(165)
(Loss) / profit on disposal of fixed assets	(2,035)	26,927
Interest and other finance expenses	(14,780)	(3,050)
Gain / (loss) on derivatives	7,881	(38,269)
Other non-operating expenses	(9,657)	(13,065)
Profit before tax	80,351	224,719
Profit tax	(4,828)	(7,496)
Consolidated profit for the period	75,523	217,223



**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**38. Business Segmental Analysis (Continued)**

b) Reconciliation of reported segment profit to the consolidated profit for the year (continued)

Segmental profit has been arrived at after taking into accounts the following:

	Voyage and running costs		Depreciation		Interest expense	
	2009	2008	2009	2008	2009	2008
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Krasnodar Type	22,581	34,445	6,683	6,676	1,548	3,724
Moscow Type	40,153	53,453	10,547	11,159	2,073	5,481
S Type	25,910	28,732	5,115	5,104	840	2,077
L Type	22,941	24,588	8,786	9,102	1,315	2,850
C Type	44,594	66,316	15,383	15,694	7,954	11,990
C Water Type	22,214	28,480	8,661	8,729	1,676	3,941
Mountain Type	12,742	15,840	2,264	2,447	251	489
P Type	11,753	6,378	5,745	3,603	814	1,930
Trogir Type	42,792	37,966	20,301	22,488	936	2,469
<b>Total</b>	<b>245,680</b>	<b>296,198</b>	<b>83,485</b>	<b>85,002</b>	<b>17,407</b>	<b>34,951</b>

c) Segmental assets and liabilities

	Assets		Liabilities	
	2009	2008	2009	2008
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Krasnodar Type	134,790	141,970	70,426	79,164
Moscow Type	169,635	173,801	129,814	113,709
S Type	104,825	109,751	53,250	45,206
L Type	204,455	213,201	102,226	67,261
C Type	319,318	338,449	203,408	235,698
C Water Type	186,651	194,524	75,472	84,619
Mountain Type	46,307	46,974	31,818	12,232
P Type	128,613	134,696	39,657	45,745
Trogir Type	200,522	213,945	5,625	58,914
<b>Total of all segments</b>	<b>1,495,116</b>	<b>1,567,311</b>	<b>711,696</b>	<b>742,548</b>
Items not attributable to a specific segment	878,767	821,352	135,963	179,157
<b>Entity totals</b>	<b>2,373,883</b>	<b>2,388,662</b>	<b>847,659</b>	<b>921,705</b>

**Notes to the Consolidated Financial Statements (continued)**  
31st December 2009

**39. Contingent Liabilities and Commitments**

## a) Contingent liabilities

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group 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 a 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. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable legislation, official pronouncements and court decisions, though management interpretation may be different from that of tax authorities.

## b) Capital commitments

The Group's capital commitments arise in respect of newbuildings and are payable as follows:

	2009 U.S.\$'000	2008 U.S.\$'000
Within 1 year	56,610	120,951
Within 2 to 5 years	-	62,771
	<u>56,610</u>	<u>183,722</u>

At 31st December 2009 the Group had outstanding capital commitments in respect of the following contracts:

In September 2006 the Group signed contracts for the construction of six crude oil carriers of 156,000 dwt each at the shipyards of Jiangsu Rongsheng Heavy Industries Co., Ltd, China (the "Builder") for U.S.\$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. On 18th June 2009 the Group and the Builder signed Addendum No. 2 to the shipbuilding contracts whereby the last two of the six vessels were cancelled and the price of the remaining four vessels was reduced. The first vessel was delivered in 2009. The outstanding commitment under the remaining three contracts, together with additional work ordered, at 31st December 2009 is U.S.\$36.9 million. The vessels are due for delivery in 2010.

The construction of two asphalt tankers of 6,000 dwt each at the shipyards of GEO Marine Engineering & Shipbuilding Co. Ltd., Korea for U.S.\$40 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 31st December 2009 is U.S.\$19.7 million. The vessels are due for delivery in 2010.

## c) Operating lease commitments – where a Group company is a lessor

Operating lease payments to be received by the Group under non-cancellable time charter agreements are as follows:

	2009 U.S.\$'000	2008 U.S.\$'000
Within 1 year	143,150	190,781
Within 2 to 5 years	86,167	146,555
After 5 years	3,267	13,122
	<u>232,584</u>	<u>350,458</u>

**Notes to the Consolidated Financial Statements (continued)**  
**31st December 2009**

**40. Contingent Assets**

Following a review of the Group's operations some irregularities were discovered in respect of sale and purchase transactions and chartering contracts. From 2005 through to 2009 the Group filed claims in London and in other jurisdictions for losses arising out of various transactions which were estimated as being in the region of between U.S.\$125 million and U.S.\$193 million.

During 2008 the Group reached an agreement with H. Clarkson & Company Limited ("Clarksons") in full settlement of claims filed against Clarksons in relation to third party commissions paid and payable and the repayment of commissions received and receivable by Clarksons on business transacted during the period 2001 to 2005.

On 9th April 2009 the Group reached an agreement with Galbraith's Limited ("Galbraith's") in full settlement of claims filed in London against Galbraith's on terms that are confidential between the parties. The income from the settlement is included in other non-operating income / (expenses) in the income statement.

Following the settlement of the above claims the revised balance of the claims filed in London and other jurisdictions is in the region of U.S.\$103 million to U.S.\$171 million.

**41. Related Party Transactions**

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

	2009 U.S.\$'000	2008 U.S.\$'000
Cash in government-controlled banks	15,318	47,402
Interest income from government-controlled banks	2,809	3,011
Revenue from sales of charts and publications to a fellow subsidiary undertaking of the Parent	733	720
Commissions paid for commercial management to a fellow subsidiary undertaking of the Parent	3,217	1,266

**42. Events After the Reporting Period**

On 15th January 2010 the Company registered a subsidiary Sochi Grand Marine LLC with a share capital of RUR30 million (approximately U.S.\$1 million). The share capital is divided between JSC Novoship (25% of share capital) and JSC Morport Sochi (75% of share capital) which is in its turn a 100% subsidiary of JSC Novoship. It is planned by the Group that Sochi Grand Marine will operate as a managing company for construction and development of Olympic sites for the 2014 Winter Olympic Games.

On 1st March 2010 the Board of Directors resolved to buy back 10% of the remaining share capital, i. e. 41,266,042 ordinary shares at a fixed price RUR80 (U.S.\$2.64) per share. The total buy back will amount to U.S.\$109 million and is expected to take place before the end of May 2010.

On 22nd March 2010 the Group has signed an addendum to the shipbuilding contract for construction of Hull H1033 ("NS Bora") with Jiangsu Rongsheng Heavy Industries Co. Ltd. In accordance with the terms of the addendum, the purchase price of the vessel is reduced by U.S.\$2.5 million with no further adjustments (in relation to interest, extra costs and liquidated damages); the vessel is re-scheduled for delivery on 31st March 2010 the latest; and 1st April 2010 is the cancelling date. The Group expects NS Bora to be delivered on 29th March 2010.