PROSPECTUS

SCF Capital Limited

(incorporated with limited liability under the laws of Ireland)

US$ 800,000,000 5.375% Senior Notes Due 2017

Guaranteed by OAO "Sovcomflot"

(incorporated with limited liability under the laws of the Russian Federation)

Issue Price 100%

The US$ 800,000,000 5.375% Senior Notes due 2017 (the "**Notes**") are issued by SCF Capital Limited (the "**Issuer**") and guaranteed by OAO "Sovcomflot" ("**Sovcomflot**" or the "**Guarantor**"). Interest on the Notes will accrue from October 27, 2010 and will be payable semi-annually in arrear on April 27 and October 27 of each year, commencing on April 27, 2011. The Notes will be equal in right of payment with all of the Issuer's existing and unsubordinated indebtedness and will rank senior to all of the Issuer's existing and future indebtedness that is subordinated in right of payment to the Notes. The Notes will be subordinated in right of payment to all of the Issuer's future secured indebtedness and the existing and future secured indebtedness of the Guarantor and its subsidiaries to the extent of the value realized of the assets securing such indebtedness. The Notes will be constituted by, and have the benefit of, the trust deed dated October 27, 2010 (the "**Trust Deed**") between the Issuer, the Guarantor and Deutsche Trustee Company Limited (the "**Trustee**"). The Guarantor will unconditionally and irrevocably guarantee payment of all amounts payable by the Issuer, when due and payable, in respect of the Notes issued by the Issuer pursuant to Clause 5 of the Trust Deed (the "**Guarantee**").

Investing in the Notes involves risks. See "Risk Factors" starting on page 12 for a discussion of certain factors that should be considered in connection with an investment in the Notes.

Payments on the Notes will be made free and clear of any withholding taxes imposed by the laws of Ireland or the Russian Federation to the extent described in "Terms and Conditions of the Notes and the Guarantee" herein. The Issuer may redeem the Notes in whole, but not in part, if the Issuer is required to withhold tax in respect of payments of principal and interest in respect of the Notes, or the Guarantor is required to withhold tax in respect of payments under the Guarantee, in Ireland or the Russian Federation as a result of a change in law, all as more fully set out in Condition 7(b) (Redemption for tax reasons) of the Terms and Conditions of the Notes. Unless previously purchased and cancelled or redeemed, the Notes mature on October 27, 2017.

The Notes and the Guarantee have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and, subject to certain exceptions, may not be offered or sold within the United States (as defined in Regulation S under the Securities Act ("**Regulation S**")). The Notes may be offered and sold (i) within the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in reliance on the exemption from registration provided by Rule 144A (the "**Rule 144A Notes**") and (ii) in offshore transactions in reliance on Regulation S (the "**Regulation S Notes**"). Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions, see "Subscription and Sale" and "Transfer Restrictions."

Notes which are offered and sold in offshore transactions in reliance on Regulation S will be represented by beneficial interests in an unrestricted global Note (the "**Regulation S Global Note**") in registered form, without interest coupons attached, which will be registered in the name of BT Globenet Nominees as nominee for, and shall be deposited on or about October 27, 2010 (the "**Closing Date**") with Deutsche Bank AG, London Branch, as common depositary for, and in respect of interests held through, Euroclear Bank SA/NA ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in a restricted global Note (the "**Rule 144A Global Note**" and, together with the Regulation S Global Note, the "**Global Notes**") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with Deutsche Bank Trust Company Americas as custodian for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**"). The Global Notes will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive, fully registered, form, without interest coupons, in denominations of US$ 200,000 and integral multiples of US$ 1,000 in excess thereof. See "Summary of Provisions relating to the Notes in Global Form." Interests in the Rule 144A Global Note will be subject to certain restrictions on transfer. See "Transfer Restrictions." Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. It is expected that delivery of the Global Notes will be made on or about the Closing Date. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended (the "**FSMA**") (in such capacity, the "**UK Listing Authority**") for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**Stock Exchange**") for the Notes to be admitted to trading on the Stock Exchange's Regulated Market (the "**Regulated Market**"). Reference in this prospectus (the "**Prospectus**") to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and admitted to trading on the Regulated Market. The Regulated Market is a regulated market for the purpose of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Joint Bookrunners and Joint Lead Managers

Deutsche Bank **J.P. Morgan** **VTB Capital**

The date of this Prospectus October 22, 2010

You should rely only on the information contained in this Prospectus. None of the Issuer, Sovcomflot and the Joint Lead Managers has authorized anyone to provide you with different information, and you should not rely on any such information. None of the Issuer, Sovcomflot and the Joint Lead Managers is making an offer of these securities in any jurisdiction where such an offer is not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the front of this Prospectus.

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IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer, Sovcomflot and its consolidated subsidiaries taken as a whole (the "**Group**"), the Notes and the Guarantee, which, according to the particular nature of the Issuer, Sovcomflot, the Group, the Notes and the Guarantee, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, Sovcomflot and the Group and the rights attaching to the Notes and the Guarantee. The Issuer and Sovcomflot each accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and Sovcomflot (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

THE NOTES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE BOUGHT AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. AN INVESTMENT IN THE NOTES IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND MAY RESULT IN THE LOSS OF ALL OR PART OF THE INVESTMENT.

No person is authorized to give any information or to make any representation in connection with the offer or sale of the Notes other than as contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorized by the Issuer, Sovcomflot, the Trustee or any Manager (as defined in "Subscription and Sale"). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or Sovcomflot or the Group since the date hereof or that there has been no adverse change in the financial position of the Issuer or Sovcomflot or the Group since the date hereof or that the information contained in it is correct as of any time subsequent to the date on which it is supplied. No representation or warranty, express or implied, is made by any Manager or the Trustee as to the accuracy or completeness of such information. None of the Managers or the Trustee accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Issuer, Sovcomflot, the Notes or the Guarantee. Each of the Managers and the Trustee accordingly disclaims all and any liability whether arising in tort, contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

This Prospectus does not constitute an offer to sell, or a solicitation to subscribe for or purchase, by or on behalf of the Issuer, Sovcomflot, any Manager or any other person, any of the Notes in any jurisdiction where it is unlawful for such person to make such offer or solicitation. The distribution of this Prospectus and the offer and sale of the Notes in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Issuer, Sovcomflot and the Managers to inform themselves about and to observe such restrictions. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorized or is unlawful. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Prospectus is set out under "Subscription and Sale."

No action is being taken to permit a public offering of the Notes or the distribution of this Prospectus (in any form) in any jurisdiction where action would be required for such purposes.

The contents of this Prospectus should not be construed as legal, financial, business or tax advice. Each prospective investor should consult his or her own legal adviser, financial adviser or tax adviser for legal, financial or tax advice in relation to any purchase or proposed purchase of Notes.

In connection with the offering of the Notes, the Managers and any of their affiliates, acting as investors for their own accounts, may purchase Notes and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Notes and other securities of the Issuer or Sovcomflot or related investments in connection with the offering of the Notes or otherwise. Accordingly, references in this Prospectus to the Notes being issued, offered, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or acquisition, placing or dealing by, the Managers and any of their affiliates acting as investors for their own accounts. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Recipients of this Prospectus are authorized to use it solely for the purpose of considering an investment in the Notes and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering an investment in the Notes.

None of the Issuer, Sovcomflot, the Managers or the Trustee is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser.

The Managers and their respective affiliates may have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders and Sovcomflot).

Prior to making any decision as to whether to invest in the Notes, prospective investors should read this Prospectus. In making an investment decision, prospective investors must rely upon their own examination of the Issuer, the Group and Sovcomflot and the terms of this Prospectus, including the risks involved.

If investors are in any doubt about the contents of this Prospectus, investors should consult a stockbroker, bank manager, solicitor, accountant or other financial adviser.

Any investment in Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Irish Financial Services Regulatory Authority (the "**Financial Regulator**"). The Issuer is not and will not be regulated by the Financial Regulator as a result of issuing the Notes.

NOTICE TO U.S. INVESTORS

THE NOTES AND THE GUARANTEE HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

THE NOTES AND THE GUARANTEE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES. THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND BY THE MANAGERS THROUGH THEIR RESPECTIVE REGISTERED BROKER-DEALER AFFILIATES INSIDE THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF RULE 144A ("QIBs") IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (SEE "SUBSCRIPTION AND SALE"). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF ANY RULE 144A NOTE MAY BE RELYING UPON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (RSA 421-B) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

THE NOTES WILL BE SUBJECT TO CERTAIN RESTRICTIONS ON OFFERS, SALES AND TRANSFERS. SEE "TERMS AND CONDITIONS OF THE NOTES AND THE GUARANTEE," "TRANSFER RESTRICTIONS" AND "SUBSCRIPTION AND SALE."

UNITED STATES INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

TO COMPLY WITH UNITED STATES TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE UNITED STATES INTERNAL REVENUE CODE; (B) ANY SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) A TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

NOTICE TO RUSSIAN INVESTORS

This Prospectus should not be considered as a public offer or an advertisement of the Notes in the Russian Federation, and is not an offer, or an invitation to make offers, to purchase any Notes in the Russian Federation. Neither the Notes, nor this Prospectus or any other document relating to them have been registered with the Federal Service for the Financial Markets of the Russian Federation.

STABILIZATION

In connection with the issue of the Notes, Deutsche Bank AG, London Branch (the "**Stabilizing Manager**") or any person acting on behalf of the Stabilizing Manager may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or any persons acting on behalf of the Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilization action or over-allotment shall be conducted in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL AND OTHER DATA

The audited consolidated financial statements for the Group as of and for the fiscal years ended December 31, 2009, December 31, 2008, and December 31, 2007 included in this Prospectus have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), which includes International Accounting Standards and Interpretations issued by the International Accounting Standards Board, and have been audited by Moore Stephens LLP, the Group's independent auditors, who are members of the Institute of Chartered Accountants in England and Wales. The unaudited consolidated financial statements for the Group as of and for the six-month period ended June 30, 2010, have been prepared on the same basis as Sovcomflot's audited consolidated financial statements and in accordance with the International Accounting Standard 34, "Interim Financial Reporting" ("**IAS 34**") and have been reviewed by Moore Stephens LLP. The Group's results for the six-month period ended June 30, 2009, have been included in the interim review report for the unaudited consolidated financial statements for the Group as of and for the six-month period ended June 30, 2010, for comparative purposes only. The results for any interim period are not necessarily indicative of the results that may be expected for a full year.

"**Adjusted EBITDA**" is presented in this Prospectus. Adjusted EBITDA represents EBITDA before other non-operating (expenses)/income, gain/ (loss) on hedging instruments, gain/(loss) on derivative financial instruments held for trading, loss on available-for-sale investments, impairment of goodwill, differences on foreign exchange, reversal/(provision) for impairment of tonnage under construction, reversal/(provision) of onerous contract, (loss)/gain on sale of assets, gain on disposal of investments, net other operating income and share of (losses)/gains in associated undertakings. We present Adjusted EBITDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results as reported under IFRS. One of these limitations is that Adjusted EBITDA does not reflect the impact of financing costs, impact of income taxes, depreciation and amortization and exchange costs.

Other companies in our industry may calculate Adjusted EBITDA differently or may use it for different purposes to manage their business, limiting its usefulness as a comparative measure. We rely primarily on our IFRS operating results and use Adjusted EBITDA as a supplemental analytical tool. See "Summary Consolidated Financial Information" and our consolidated financial statements included elsewhere in this Prospectus. Adjusted EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Adjusted EBITDA is not a measurement of our operating performance under IFRS and should not be considered as an alternative to profit, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity or our ability to generate cash flow to service our indebtedness. In particular, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

A vessel's gross revenue is derived from freight, which is paid by a charterer to the vessel for the carriage of the cargo from one or more locations of cargo loading to one or more locations of cargo discharge, or from hire, which is paid by a charterer to the vessel for exclusive use of its services for an agreed period of time. Time charter equivalent revenues describes the earnings of any charter contract once voyages expenses and commissions relating to the performance of the contract have been deducted from the gross revenue and divided by the number of days taken to perform the charter contract. Since shipping companies have varying degrees of time charters, spot charters and other types of service contracts, management of the Group believes that it is difficult to compare shipping companies on the basis of gross revenue. Instead, time charter equivalent revenue provides a more comparable basis, eliminating differences due solely to varying contract mixes of the companies being compared.

In this Prospectus:

- "**Sovcomflot**" and the "**Guarantor**" refers only to OAO "Sovcomflot," an open joint stock company organized under the laws of the Russian Federation;
- "**SCF Capital Limited**" and the "**Issuer**" refer only to SCF Capital Limited, a company incorporated in Ireland with limited liability and an indirect wholly owned subsidiary of Sovcomflot; and
- "**We**," "**us**" and "**our**," along with the term the "**Group**," refer, collectively, to Sovcomflot and its consolidated subsidiaries, including SCF Capital Limited.

When we refer to any of these entities, we include their subsidiaries.

Market data used in this Prospectus under the headings "Summary Consolidated Financial Information," "Risk Factors," "Operating and Financial Review," "Industry Overview" and "Business" have been extracted from official, industry and internal sources and other sources we believe to be reliable. Throughout this Prospectus, we have also set forth certain statistics from industry sources and other sources we believe to be reliable. Sources of such information, data and statistics include Russian federal authorities; the U.S. Energy Information Administration ("**EIA**"); International Energy Agency ("**IEA**"); Clarkson Research Services Limited ("**CRSL**"); Wood Mackenzie Limited ("**Wood Mackenzie**"), Fearnresearch, the research division of Fearnleys ("**Fearnresearch**"), Bloomberg and BP Statistical Review of World Energy ("**BP Statistical Review**"), and all such sources have been named throughout this Prospectus. Such information, data and statistics have been accurately reproduced and, as far as we are aware and are able to ascertain from information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. However, the official data published by Russian federal authorities may be substantially less complete or researched than those of more developed countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

In this Prospectus, all references to "RUR" and "ruble" are to the currency of the Russian Federation, all references to "Euro" and "euro" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European Community, all references to "Pound Sterling" are to the currency of the United Kingdom and all references to "US$," "$," "U.S. dollar" and "dollar" are to the currency of the United States.

In this Prospectus, all references to:

- "**CIS**" are to the Commonwealth of Independent States, its member and associated member states as of the date of this Prospectus, being Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan;
- "**EEA**" are to the European Economic Area and its member states as of the date of this Prospectus;
- "**EU**" are to the European Union and its member states as of the date of this Prospectus;
- "**Russia**" are to the Russian Federation;
- "**UK**" are to the United Kingdom; and
- "**U.S.**" are to the United States.

Certain amounts and percentages that appear in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the mathematical aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% when aggregated.

EXCHANGE RATE INFORMATION

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rates for U.S. dollars, expressed in rubles per U.S. dollar, based on the official exchange rates quoted by the Central Bank of Russia; in U.S. dollars per Pound Sterling, based on the official exchange rates quoted by the Bank of England; and in U.S. dollars per Euro, based on the official exchange rates quoted by the European Central Bank. Fluctuations in these exchange rates in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Group's consolidated financial statements and other information presented in this Prospectus.

	RUR per USD			
Year ended December 31,	**High Exchange Rate**	**Low Exchange Rate**	**Average Exchange Rate[1]**	**Period end**
2005	29.00	27.46	28.31	28.78
2006	28.48	26.18	27.14	26.33
2007	26.58	24.26	25.55	24.55
2008	29.38	23.13	24.87	29.38
2009	36.43	28.67	31.77	30.24

	RUR per USD			
	High Exchange Rate	**Low Exchange Rate**	**Average Exchange Rate[1]**	**Period end**
October 2010 (through October 5)	30.51	30.44	30.49	30.44
September 2010	31.08	30.40	30.81	30.40
August 2010	30.90	29.80	30.35	30.66
July 2010	31.73	30.19	30.68	30.19
June 2010	31.78	30.73	31.17	31.20
May 2010	31.43	29.15	30.43	30.50
April 2010	29.50	28.93	29.19	29.29
March 2010	29.98	29.19	29.56	29.36
February 2010	30.52	29.88	30.16	29.95
January 2010	30.53	29.38	29.84	30.43

(1) The average of the exchange rates on the last business day of each full month for the relevant annual periods, and on each business day for which the Central Bank of Russia quotes the U.S. dollar to ruble exchange rate for the relevant monthly period.

On October 5, 2010, the exchange rate quoted by the Central Bank of Russia between the ruble and the U.S. dollar was RUR30.44 to US$ 1.00.

	USD per GBP			
Year ended December 31,	**High Exchange Rate**	**Low Exchange Rate**	**Average Exchange Rate[1]**	**Period end**
2005	1.9311	1.7114	1.8189	1.7166
2006	1.9807	1.7261	1.8430	1.957
2007	2.1081	1.9255	2.0022	1.9909
2008	2.031	1.4376	1.8528	1.4376
2009	1.6964	1.3668	1.5665	1.6148

	USD per GBP			
	High Exchange Rate	Low Exchange Rate	Average Exchange Rate[1]	Period end
October 2010 (through October 5)	1.5920	1.5811	1.5857	1.5920
September 2010	1.5833	1.5305	1.5578	1.5755
August 2010	1.5975	1.5367	1.5660	1.5367
July 2010	1.5661	1.5074	1.5299	1.5661
June 2010	1.5108	1.4369	1.4761	1.4962
May 2010	1.5116	1.4305	1.4627	1.4459
April 2010	1.5499	1.5200	1.5340	1.5313
March 2010	1.5295	1.4885	1.5053	1.5167
February 2010	1.5969	1.5224	1.5615	1.5224
January 2010	1.6372	1.5935	1.6162	1.6020

(1) The average of the exchange rates on the last business day of each full month for the relevant annual periods, and on each business day for which the Bank of England quotes the U.S. dollar to Pound Sterling exchange rate for the relevant monthly period.

On October 5, 2010, the exchange rate quoted by the Bank of England between the U.S. dollar and the Pound Sterling was US$ 1.5920 to GBP1.00.

	USD per EUR			
Year ended December 31,	High Exchange Rate	Low Exchange Rate	Average Exchange Rate[1]	Period end
2005	1.3507	1.1667	1.2441	1.1797
2006	1.3331	1.1826	1.2556	1.3170
2007	1.4874	1.2893	1.3705	1.4721
2008	1.5990	1.2460	1.4708	1.3917
2009	1.5120	1.2555	1.3948	1.4406

	USD per EUR			
	High Exchange Rate	Low Exchange Rate	Average Exchange Rate[1]	Period end
October 2010 (through October 5)	1.3780	1.3705	1.3737	1.3780
September 2010	1.3648	1.2697	1.3067	1.3648
August 2010	1.3253	1.2611	1.2894	1.2680
July 2010	1.3069	1.2328	1.2770	1.3028
June 2010	1.2391	1.1942	1.2209	1.2271
May 2010	1.3238	1.2223	1.2565	1.2307
April 2010	1.3615	1.3245	1.3406	1.3315
March 2010	1.3765	1.3338	1.3569	1.3479
February 2010	1.3984	1.3489	1.3686	1.3570
January 2010	1.4563	1.3966	1.4272	1.3966

(1) The average of the exchange rates on the last business day of each full month for the relevant annual periods, and on each business day for which the European Central Bank quotes the U.S. dollar to Euro exchange rate for the relevant monthly period.

On October 5, 2010, the exchange rate quoted by the European Central Bank between the U.S. dollar and the Euro was US$ 1.3780 to EUR1.00.

No representation is made that the amounts referred to in this Prospectus could have been or could be converted into any other currency at the above exchange rates, at any other rate or at all. In particular, the ruble is generally not convertible outside Russia. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may tend to distort their values relative to the ruble.

FORWARD-LOOKING STATEMENTS

This Prospectus includes statements that are, or may be deemed to be, "forward-looking statements." These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "forecasts," "plans," "projects," "anticipates," "expects," "intends," "may," "will," "could" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, business prospects, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group business, results of operations, financial position, liquidity, prospects, growth, strategies and the shipping industry.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of the Group's operations, financial position and liquidity, and the development of the markets and the industries in which the Group operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this Prospectus. In addition, even if the Group's results of operations, financial position and liquidity, and the development of the markets and the industries in which the Group operates, are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation:

- materially adverse changes in political, economic or industry conditions globally, in Russia or in the markets served by the Group;
- changes in the supply and demand for and the price of shipping services, including charter rates and vessel values;
- changes in the costs of the materials required for the Group's services and equipment;
- changes in the Group's operating costs, including the costs of energy and transportation, crewing costs, drydocking costs and the costs of insurance;
- changes in the Group's capital expenditure requirements, including those relating to the Group's potential environmental liabilities, or the ability of the Group to fund its capital expenditure requirements through borrowing or otherwise;
- the Group's ability to successfully implement any of its business strategies;
- the punctual delivery of and availability of financing for the Group's newbuilding vessels;
- the Group's ability to obtain or extend the terms of the licenses necessary for the operation of the Group's business;
- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting the Group's operations and the costs associated with complying with these developments or changes;
- fluctuations in inflation, interest rates and exchange rates;
- the ability of the Group's customers to honor their existing vessel charter contracts;
- the Group's ability to meet its debt obligations on a timely basis and compliance with covenants under its existing credit facilities;
- the Group's ability to realize anticipated future revenues already subject to customer contracts;
- availability of funds and the sufficiency of operating cash flows to provide corporate liquidity;
- future growth prospects;
- other factors discussed in "Risk Factors," "Business," "Operating and Financial Review" and "Industry Overview"; and

- the Group's success in accurately identifying future risks to its business and managing the risks of the aforementioned factors.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statement in this Prospectus reflects the Group's current view with respect to future events and is subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's business, results of operations, financial position, liquidity, prospects, growth, strategies and the shipping industry. Investors should specifically consider the factors identified in this Prospectus, which could cause actual results to differ before making an investment decision. Subject to the applicable disclosure and listing rules, we undertake no obligation to publicly release the result of any revisions to any forward-looking statements in this Prospectus that may occur due to any change in our expectations or to reflect events or circumstances that occur after the date of this Prospectus.

AVAILABLE INFORMATION

Each of the Issuer and Sovcomflot have agreed that, for so long as any of the Notes are "restricted securities" within the meaning of Rule l44(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities and Exchange Act of 1934, as amended (the "**Exchange Act**") nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

This Prospectus is being furnished by the Issuer and Sovcomflot in connection with an offering exempt from the registration requirements of the Securities Act solely for the purpose of enabling a prospective investor to consider the acquisition of Notes described herein. The information contained in this Prospectus has been provided by the Issuer, Sovcomflot and other sources identified herein. Any reproduction or distribution of this Prospectus, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than considering an investment by the recipient in the Notes offered hereby, is prohibited. Each potential investor in the Notes, by accepting delivery of this Prospectus, agrees to the foregoing.

ENFORCEABILITY OF JUDGMENTS

Sovcomflot is incorporated under the laws of the Russian Federation, and most of its directors and officers reside in the Russian Federation. Most of the assets of Sovcomflot and of such persons are located outside the United States and the United Kingdom.

Each of the Issuer and Sovcomflot has appointed an agent for service of process in England; however, it may not be possible for investors to effect service of process within the United States or the United Kingdom on the directors and officers of the Issuer or Sovcomflot or to enforce judgments against such persons or the Issuer or Sovcomflot.

Final judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognized and enforced by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered. There are no international treaties in effect today providing for the mutual recognition and enforcement of foreign judgments rendered by courts in the Russian Federation and courts in most of the countries where Notes investors are likely to reside, including the United States and the United Kingdom.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognized by a Russian court on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts have recently recognized and enforced at least one English court judgment on the basis of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognize and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognized and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognize or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy (see "Risk Factors—Risks Relating to Russia"). As a result, it may be difficult to obtain recognition or enforcement in the Russian Federation of a foreign judgment, including judgments against Sovcomflot and its directors or officers predicated upon the civil liability provisions of U.S. federal securities laws or any state or territory within the United States or English law.

The Notes and the Guarantee will be governed by English law and will provide for disputes, controversies and causes of action brought by parties thereto against the Issuer or Sovcomflot to be settled by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**LCIA**"). The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the limited experience of the Russian courts in international commercial transactions and enforcement of foreign arbitral awards; and
- political resistance to the enforcement of awards against Russian companies in favor of foreign investors.

Under current Russian law, state duty may be payable upon the initiation of any action or proceeding (including any proceeding for enforcement) arising out of the Notes or the Guarantee in any Russian court.

OVERVIEW OF THE GROUP

This overview should be understood as an introduction to the Prospectus and highlights information presented in greater detail elsewhere in this Prospectus. This overview is not complete and does not contain all the information you should consider before investing in the Notes. You should carefully read this entire Prospectus before investing, including "Risk Factors," "Business" and the historical financial statements. Every decision to invest in the Notes should be based on an assessment of the entire Prospectus. See "Operating and Financial Review" for information regarding the financial statements, exchange rates and other matters.

Overview

The Group is the largest shipping company in Russia and a leading provider of seaborne energy transportation services worldwide. The Group operates one of the largest and most modern tanker fleets in the world according to CRSL, and its core business is the worldwide seaborne transportation of crude oil and oil products for the world's leading oil and gas companies, with a particular focus on exporting Russian hydrocarbons. The Group specializes in the operation of ice-class vessels, which are designed to operate in and withstand harsh weather and ice conditions, primarily in the Baltic, Arctic and Far Eastern regions of Russia. According to CRSL, the Group is the largest owner of ice-class tankers in the world, based on DWT capacity as of October 1, 2010. As of June 30, 2010, the Group's fleet consisted of 144 owned and chartered-in vessels with a total capacity of approximately 10.5 million DWT, including 45 ice-class vessels (32.8% of the Group's fleet), and the Group had 10 offices worldwide. In 2009, the Group generated time-charter equivalent revenues of US$ 932.3 million and Adjusted EBITDA of US$ 550.0 million. For the six months ended June 30, 2010, the Group generated time-charter equivalent revenues of US$ 496.5 million and Adjusted EBITDA of US$ 292.6 million.

Sovcomflot is currently wholly owned by the Russian Federation and, in 2009, was included on the Russian Federation's list of strategic enterprises and organizations that share a privileged legal status under certain Russian laws (See "Business—Status as a Strategic Enterprise"). Given Sovcomflot's status as a state-owned shipping company and a strategic asset of the Russian Federation, the Group has a critical role in the development of Russia's energy sector, both as the leading energy shipping group in Russia and as an integral part of the Russian infrastructure for developing, transporting and exporting Russian hydrocarbons. Management considers the Group's operations to be, in effect, a seaborne extension of the JSC Transneft ("**Transneft**") pipeline infrastructure, which positions the Group to benefit from anticipated growth in Russian hydrocarbon exports. According to the IEA, Russia is currently the largest crude oil producing country in the world and possesses the world's largest natural gas reserves according to BP Statistical Review (see "Industry Overview—The Russian Oil and Gas Sector"). Management believes that the Group's reputation and position in the Russian market will continue to allow the Group to carry a significant portion of these oil and gas reserves that are exported by sea.

Since 2005, the Group has expanded significantly through organic fleet growth, acquisitions and contributions to its charter capital from a midsize tanker company to a global leader in energy shipping, providing complex marine logistical solutions. Since 2005, the Group's fleet has more than tripled in DWT capacity and gross revenue and, as of June 30, 2010, the Group had 11 additional newbuildings under construction, nine of which are expected for delivery before the end of 2010, and two in early 2011. A significant portion of this growth resulted from the acquisition, in December 2007, of an effective 66.5% interest (subsequently increased to an effective 86.8% interest) in JSC Novoship ("**Novoship**") from the Russian Federation (See "Business—History and Development"). The rationale for this consolidation was to create a fully integrated Russian shipping company that could compete effectively in both Russian and international shipping markets with a large, high quality and modern fleet equipped with the latest technology to enable the provision of a broad range of services required by its customers. Since 2007, the Group has significantly broadened the range and capabilities of its vessels and services by entering new market segments in the energy industry, such as the transportation of LNG and LPG; owning and operating shuttle tankers and supply vessels to and from offshore exploration, production and transshipment facilities; and owning and operating tugs, all with a focus on providing services in the harsh weather and icy operating conditions in the Baltic, Arctic and Far Eastern regions of Russia. Management of the Group believes that this operational expertise should place the Group in a leading position to expand the range of transport and logistics services that it provides to its clients both in Russia and internationally.

The Group's customers include major Russian oil and gas companies, such as OAO Gazprom ("**Gazprom**"), OAO Lukoil ("**Lukoil**"), OAO Rosneft Oil Company ("**Rosneft**") and TNK-BP Holding

Group ("**TNK-BP**"); major international oil companies, such as BP plc ("**BP**"), Chevron Corporation ("**Chevron**"), ConocoPhillips Company ("**ConocoPhillips**"), ExxonMobil Corporation ("**ExxonMobil**"), Royal Dutch Shell plc ("**Shell**") and Total S.A. ("**Total**"); and other international oil and gas companies, such as Petrochina Company Limited ("**Petrochina**"), Repsol YPF ("**Repsol**") and Statoil ASA ("**Statoil**"). Management of the Group believes that customers partner with the Group for logistically complex projects due to the Group's extensive operating capabilities, diverse service offerings, high quality fleet, reputation for first-class customer service and financial stability.

The Group actively manages its vessel employment mix with a strong focus on deriving a significant portion of revenue from fixed-rate time charters. Management considers the Group's fleet deployment to be well balanced, with 58.8% of its revenue for the year ended December 31, 2009 from fixed-rate time charters (50.2% for the six months ended June 30, 2010) and 41.2% of its revenue for the year ended December 31, 2009 from spot charters and contracts of affreightment (49.8% for the six months ended June 30, 2010). As of June 30, 2010, the Group had total contracted future revenues of US$ 4.7 billion, including US$ 2.8 billion under contracts whose remaining terms exceeded five years in duration. Management of the Group believes that this vessel employment mix provides stable revenues and operating cash flows, as well as flexibility in scheduling the deployment of its vessels.

The Group's operations are organized into five business segments:

- *Crude oil transportation.* This segment transports mainly crude oil for the Group's customers worldwide. In 2009, this segment generated US$ 431.4 million (approximately 46.3%) of the Group's time-charter equivalent revenues. As of June 30, 2010, the Group's fleet in this segment consisted of 56 crude oil carriers (including four chartered-in vessels), representing a total capacity of approximately 7.0 million DWT.
- *Oil products transportation.* This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. In 2009, this segment generated US$ 324.1 million (approximately 34.8%) of the Group's time-charter equivalent revenues. As of June 30, 2010, the Group's fleet in this segment consisted of 36 petroleum product carriers (including one chartered-in vessel), 23 chemical and oil carriers and three asphalt and bitumen carriers, representing a total capacity of approximately 2.6 million DWT.
- *Gas transportation.* This segment primarily transports LNG and LPG. In 2009, this segment generated US$ 77.4 million (approximately 8.3%) of the Group's time-charter equivalent revenues. As of June 30, 2010, this segment's fleet consisted of six LNG carriers, four of which are jointly owned with third parties, and two LPG carriers, representing a total capacity of 453,000 DWT.
- *Offshore development services.* This segment contains the Group's shuttle tankers and specialized supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously. This segment also provides additional services to offshore development facilities, such as logistical support and the management of floating storage and offloading units ("**FSOs**"). In 2009, this segment generated US$ 81.3 million (approximately 8.7%) of the Group's time-charter equivalent revenues. As of June 30, 2010, this segment's fleet consisted of six shuttle tankers with a total capacity of approximately 485,000 DWT, as well as one ice breaking platform supply vessels.
- *Coal transportation and ancillary marine services.* This segment operates bulk cargo carriers, primarily for the transportation of coal, and provides a variety of logistical services to terminal operators, such as the operation of tug vessels, the management of onshore oil terminals and the provision of technical services to the Group's and third-party vessels. In 2009, this segment generated US$ 18.2 million (approximately 2.0%) of the Group's time-charter equivalent revenues. As of June 30, 2010, this segment's fleet consisted of four dry cargo carriers with a total capacity of approximately 98,000 DWT, as well as seven tugs.

Summary of the Group's Fleet

The table below sets forth an overview of the Group's vessels as of June 30, 2010, broken down by business segment:

Ship Name	Owned	Chartered-in	Newbuilding	Total	Average Age[(1)]
Crude oil tankers	52	4	6	62	5.4
Oil product carriers	61	1	2	64	6.6
LNG and LPG carriers	8			8	13.4
Shuttle tankers	6		1	7	2.8
Ice breaking platform supply vessels	1			1	4.0
Tugs	7		2	9	0.9
Bulkers	4			4	14.1
TOTAL	139	5	11	155	5.9

(1) Average age includes only owned and chartered-in vessels and is weighted based on the DWT of such vessels.

Key Competitive Strengths

Management believes that the Group has a number of competitive strengths that have enabled it to expand significantly over the last several years and that these strengths, including those summarized below, will continue to provide it with competitive advantages in the future.

- *Global leader across market segments.* The Group is a leader in each of the market segments in which it operates. According to CRSL, the Group was the largest tanker owner in the world based on number of vessels; the largest owner of ice-class tankers based on DWT as of October 1, 2010; the second largest owner of Aframax tankers; the fourth largest owner of Suezmax tankers; and the sixth largest tanker owner in the world based on DWT capacity as of September 1, 2010. Moreover, the Group is one of the largest LNG carriers worldwide and is the largest ice-class LNG operator worldwide based on number of vessels at the end of 2009 according to CRSL.
- *Modern and diverse fleet enabling a broad product offering.* The Group operates one of the youngest and most modern fleets in the world among major tanker operators with a weighted average age of 5.9 years as of June 30, 2010, compared to a weighted average fleet age of approximately 10 years for the world cargo fleet over 5,000 DWT, according to CRSL. Operating a modern fleet gives the Group an important competitive advantage relative to other operators by reducing operating costs, maintenance costs and downtime during repairs while meeting the heightening standards of both customers and regulators. The Group's fleet includes traditional and ice-class crude oil, oil products, LNG and LPG carriers, specialized shuttle tankers and supply vessels and other vessels that provide ancillary marine services. The diversity of the Group's fleet enables the Group to provide a broad range of services that are tailored to customer needs, including ship-based transportation, terminal management and other marine logistics services.
- *Well-positioned to serve large Russian energy export market.* Russia holds the second largest oil reserves in the world according to Wood Mackenzie, and the largest natural gas reserves in the world according to BP Statistical Review. In addition, the Russian Federation is committed to maintaining its pivotal role in the global oil and gas industry and has ambitious long-term production targets of 10.7 million barrels of oil per day and 900 billion cubic meters of natural gas by the end of 2030 according to Wood Mackenzie. Management believes the Group is the leading seaborne exporter of Russian hydrocarbons and estimates that it carried approximately 20% of Russian seaborne exports of crude oil and oil products in 2009. As a result, management believes the Group is well positioned to capture a significant portion of this anticipated market growth.
- *Strong, long-term relationships with high credit quality Russian and international customers*. The Group has developed strong relationships with a broad and diverse list of major Russian and international oil, energy and utility companies, such as BP, Chevron, ConocoPhillips, ExxonMobil, Gazprom, Lukoil, Petrochina, Repsol, Shell, Statoil and Total. The Group attributes the strength and longevity of its customer relationships, and the opportunity to partner with these high credit quality customers on many long-term, logistically complex projects, to the diversity and depth of the Group's service offerings, the Group's reputation for consistent delivery of high-quality services and the Group's financial stability.

- *Balanced mix of contract terms with strong portfolio of long-term fixed rate contracts*. The Group actively manages its vessel employment mix with a strong focus on deriving a significant portion of revenue from fixed-rate time charters. Management considers the Group's fleet deployment to be well balanced, with 58.8% of its revenue for the year ended December 31, 2009 from fixed-rate time charters (50.2% for the six months ended June 30, 2010) and 41.2% of its revenue for the year ended December 31, 2009 from spot charters and contracts of affreightment (49.8% for the six months ended June 30, 2010). Time charters provide predictability of cash flows and reduce fluctuations in revenues. At the same time, contracts of affreightment reduce unnecessary waiting times for cargoes and increase fleet utilization, and spot charters provide flexibility for ship scheduling while exposing the Group to market rate fluctuations.
- *Strong management team focused on operational excellence.* The Group has a highly experienced management team that focuses on operational excellence through in-house management and emphasis on high quality, cost efficient operations, and safety. Management believes the Group benefits from higher quality control over the commercial and technical management of its vessels due to its in-house operational expertise. Moreover, the Group's safety strategy focuses on in-house training, development and retention of the most highly qualified seamen, primarily from Russian state maritime academies. As a result, management believes the Group is an industry leader in safety management and environmental standards and in developing and implementing technical innovations in the energy transportation industry to promote safety and efficiency.
- *Strong and sustainable financial profile.* The Group has maintained an investment grade credit rating from Moody's since July 2005 and is currently rated Baa3 with a stable outlook by Moody's Investor Services, Inc. ("**Moody's**") and BBB− with a stable outlook by Fitch Ratings Ltd. ("**Fitch**"). The Group generates substantial cash flow from its operations and has strong access to liquidity, as well as a conservative net debt to capitalization ratio. As of June 30, 2010, the Group had total cash and cash equivalents of US$ 400.4 million, aggregate undrawn credit facilities of US$ 240.4 million and a ratio of net debt to total capitalization of 41.7%. The Group's high liquidity and low leverage ratio provide the Group with the capacity for additional financing to obtain new vessels. See "Operating and Financial Review—Liquidity and Capital Resources."

Group Strategy

On December 11, 2009, Sovcomflot's Board of Directors approved the Group's strategic plan for 2010 through 2015. Sovcomflot's Board of Directors and management have developed this strategic plan in line with government programs and strategies that have been published by the Russian Federation. The Group's strategic plan sets forth the following strategies, which the Group's management continues to monitor, develop and implement on an ongoing basis:

- *Maintain the leading position in exporting Russian hydrocarbons.* Given Sovcomflot's status as a state-owned shipping company and a strategic asset of the Russian Government (see "Business—Status as a Strategic Enterprise"), the Group has a critical role in the development of Russia's energy sector. Management considers the Group's operations to be, in effect, a seaborne extension of the Transneft pipeline infrastructure, and management estimates that the Group carried approximately 20% of Russian seaborne exports of crude oil and oil products in 2009. As a result, the Group is the largest carrier of seaborne hydrocarbon exports from Russia. The Group's strategy is to leverage its leading position to increase its market share in exporting Russian hydrocarbons.
- *Create a national integrated offshore upstream services provider with a specific focus on operating in the harsh environment and ice conditions of the Baltic, Arctic and Far Eastern regions of Russia*. The Group currently operates a technologically advanced fleet that is able to serve large-scale integrated industrial projects, primarily in the Baltic, Arctic and Far Eastern regions of Russia. These projects require highly specialized vessels and crew, which provide significant barriers to entry to potential competitors, as well as premium charter rates compared to traditional tanker market segments. As the largest owner worldwide of ice-class tankers and a diversified energy shipping company, management aims to leverage the Group's integrated expertise to gain market share in the growing Russian market for offshore oil and gas development.
- *Maintain the Group's status as a "preferred carrier" for oil and gas majors by focusing on a diverse and high-quality service offering*. The Group was the largest tanker owner in the world based on the number of vessels as of September 1, 2010, according to CRSL, and management aims to maintain the Group's status as a preferred carrier globally. Management aims to leverage the Group's large, modern and technologically advanced fleet, together with its integrated services to meet the varying

and complex needs of international oil and gas companies, who increasingly require younger vessels that meet heightened safety and emissions standards. Finally, management intends to maintain and enhance the Group's reputation as a leader in safety management, which management believes will continue to increase the Group's attractiveness to Russian and international oil and gas companies.

- *Strengthen the Group's market positions by expanding its fleet.* Management intends to expand the number and types of vessels the Group operates over the next several years, while maintaining its conservative financial profile. In Russia, management believes that increasing the size of the Group's ice-class fleet will allow the Group to maintain its leading position in the Russian energy export market. Moreover, management of the Group expects to invest in highly specialized shuttle tankers and supply vessels, designed to operate in the harsh environment and ice conditions of the Baltic, Arctic and Far Eastern regions of Russia, that can be used in the Group's integrated offshore services. In addition, management plans to expand the Group's tanker fleet to meet the growing demands of international oil and gas companies, as well as to enter new tanker segments, such as the LR1 product tanker and VLCC crude tanker segments, to broaden the Group's diverse energy transportation services.
- *Focus the Group's investment policy on the needs of core Russian and international oil and gas clients*. The Group's investment program has been designed to focus on the changing needs of the Group's core customers, with a particular emphasis on long-term industrial projects that can deliver recurring and predictable cash flows, particularly in the Baltic, Arctic and Far Eastern regions of Russia, where the Group has competitive advantages. Management of the Group intends to take advantage of such opportunities in the coming years, particularly in order to grow its offshore development and LNG transportation services.

Organizational Structure and Corporate Information

Sovcomflot is a holding company, and Sovcomflot's various subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. In line with established international shipping practice, most of the Group's vessels are each owned and financed by individual wholly owned subsidiaries of the Group's intermediate holding companies, Fiona Trust & Holding Corporation ("**Fiona**"), Intrigue Shipping Inc. ("**Intrigue**") and Sovcomflot Bulk Shipping Inc. ("**SBSI**"). Ship management services for the Group's vessels are primarily provided by Sovcomflot's subsidiaries Unicom Management Services (Cyprus) Ltd. ("**Unicom**"), Novoship, W.W. Marpetrol, S.A. ("**Marpetrol**") and JSC Rosnefteflot ("**Rosnefteflot**"), a joint venture between the Group and Rosneft.

Sovcomflot is an open joint stock company organized under the laws of the Russian Federation, including Federal Law No. 208-FZ "On Joint Stock Companies," dated December 26, 1995, as amended, with the main state registration number 1027739028712, and was originally incorporated in 1988. Sovcomflot's registered office is located at 3, Lit. A, Moika River Embankment, Saint-Petersburg, 191186, Russian Federation and the telephone number of its registered office is +7 (812) 363 11 01.

The Issuer, SCF Capital Limited, was incorporated in Ireland on August 16, 2010, with registered number 487769 as a private company with limited liability under the Companies Acts 1963 - 2009 of Ireland (the "**Companies Acts**"). The registered office of the Issuer is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and its telephone number + 353 1 680 6000. The Issuer is a wholly owned subsidiary of Glenas Shipping Co Inc., which is a wholly owned subsidiary of Sovcomflot. The Issuer is organized as a special purpose company and was established to raise capital by the issue of debt securities and to use amounts equal to the proceeds of each such issuance to advance loans to Group companies. Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a private company under the Companies Acts and those related to the issue of the Notes.

Risk Factors

Investing in the Notes involves risks. See "Risk Factors" for a discussion of certain factors that should be considered in connection with an investment in the Notes.

OVERVIEW OF THE OFFERING

The following overview contains basic information about the Notes and the Guarantee and is not intended to be complete. For a more complete understanding of the Notes and the Guarantee, please refer to the section of this Prospectus entitled "Terms and Conditions of the Notes and the Guarantee."

Issuer	SCF Capital Limited, a limited liability company incorporated under the laws of Ireland with its registered office at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.
Guarantor	OAO "Sovcomflot," a company incorporated under the laws of the Russian Federation with its registered office at 3, Lit. A, Moika River Embankment, Saint Petersburg, 191186, Russian Federation.
Notes Offered	US$ 800,000,000 aggregate principal amount of 5.375% Senior Notes due 2017
Issue Price	100%
Closing Date	October 27, 2010
Maturity Date	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on October 27, 2017.
Interest Rate	The Notes bear interest at the rate of 5.375% per annum payable in equal installments semi-annually in arrear on April 27 and October 27 in each year, commencing on April 27, 2011.
Use of Proceeds	Management of the Group intends to use the net proceeds from the offering for general corporate purposes, including the repayment of existing secured indebtedness. For more information, see "Use of Proceeds."
Form	The Notes will be in registered form, without interest coupons attached, in denominations of US$ 200,000 or multiples of US$ 1,000 in excess thereof. The Notes will be issued in the form of a Regulation S Global Note and a Rule 144A Global Note, each in registered form without interest coupons. The Regulation S Global Note will be deposited with, and registered in the name of, a nominee for the common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC. Ownership interests in the Regulation S Global Note and the Rule 144A Global Note will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.
Ranking	The Notes constitute unsubordinated and (subject to Condition 4 of the Terms and Conditions of the Notes) unsecured senior obligations of the Issuer which rank *pari passu* and without any preference among themselves. Subject to Condition 4 of the Terms and Conditions of the Notes, each of the Issuer and the Guarantor shall ensure that at all times the claims of the holders of the Notes (the "**Noteholders**") against them under the Notes and the Guarantee, respectively, rank in right of payment at least *pari passu* with the claims of all their other unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law. The

	Notes will be subordinated in right of payment to all of the Issuer's future secured indebtedness and the existing and future secured indebtedness of the Guarantor and its subsidiaries to the extent of the value realized of the assets securing such indebtedness. As of June 30, 2010, the Group had consolidated secured bank loans of US$ 2,567.4 million, secured by assets with an aggregate carrying value of US$ 4,158.0 million.
Guarantee	The payment, when due, of all sums expressed to be payable by the Issuer under the Notes and the Trust Deed has the benefit of unconditional and irrevocable guarantee of the Guarantor, as further described in Condition 2(a) of the Terms and Conditions of the Notes.
Negative Pledge	The Noteholders will have the benefit of a negative pledge granted by the Issuer and the Guarantor, as more fully described in the Terms and Conditions of the Notes.
Covenants	The Terms and Conditions of the Notes contain covenants in respect of mergers, asset disposals and the payment of taxes. In addition, the Notes contain a non-petition covenant relating to the Issuer. For more information, see "Terms and Conditions of the Notes."
Tax Redemption	The Issuer may redeem the Notes, in whole but not in part, at their principal amount, plus accrued interest, in the event of certain changes in taxation in Ireland or Russia.
Optional Redemption by the Issuer	The Issuer may, at any time prior to the Maturity Date and upon notice to the Noteholders, redeem the Notes in whole, by paying the principal amount, plus accrued interest, together with the applicable premium. For more information, see "Terms and Conditions of the Notes."
Optional Redemption by the Noteholders upon a Change of Control	Upon the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes) the Notes may be redeemed at the option of a Noteholder at 100% of their principal amount, together with the accrued and unpaid interest and additional amounts (if any) all as more fully described in the Terms and Conditions of the Notes.
Listing of Notes	Application has been made to list the Notes on the Official List of the UK Listing Authority and for the Notes to be admitted to trading on the Market.
Ownership Restrictions	None of Euroclear, Clearstream, Luxembourg or DTC will monitor compliance with any transfer or ownership restrictions.
Transfer Restrictions	The Notes and the Guarantee have not been and will not be registered under the Securities Act. You may offer to sell the Notes only in transactions exempt from, or not subject to, the registration requirements of the Securities Act and in compliance with all applicable laws of any relevant jurisdiction. See "Transfer Restrictions."
Trustee	Deutsche Trustee Company Limited
Principal Paying Agent and Registrar	Deutsche Bank AG, London Branch and Deutsche Bank Luxembourg S.A.
U.S. Registrar	Deutsche Bank Trust Company Americas

Governing Law and Arbitration	The Notes and the Trust Deed (including the Guarantee) shall be governed by and construed in accordance with English law and contain provisions for arbitration in London, England.
Selling Restrictions	United States, United Kingdom, Russian Federation, Ireland, Italy and any other jurisdiction relevant to the Offering. See "Subscription and Sale."
Ratings	The Notes have been assigned preliminary ratings of Baa3 by Moody's and BBB− by Fitch. Credit ratings assigned to the Notes do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. Similar ratings on different types of notes do not necessarily mean the same thing. Credit ratings primarily relate to default risk of the Issuer and do not relate to the liquidity of the Notes or consider whether there is a market for the Notes. Any change in the credit rating of the Notes or of Sovcomflot could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analyzed independently from any other rating.
Investment Considerations	An investment in the Notes involves a high degree of risk. See "Risk Factors."

Security Identification . . . . . .

	ISIN	Common Code	CUSIP
Rule 144A Notes	US78403LAA08	055356904	78403LAAO
Regulation S Notes	XS0552679879	055267987	—

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The summary consolidated financial information as of and for the fiscal years ended December 31, 2009, December 31, 2008, and December 31, 2007 has been derived from the Group's audited consolidated financial statements included in this Prospectus. The audited consolidated financial statements for the Group as of and for the fiscal years ended December 31, 2009, December 31, 2008, and December 31, 2007 included in this Prospectus have been prepared in accordance with IFRS, which includes International Accounting Standards and Interpretations issued by the International Accounting Standards Board, and have been audited by Moore Stephens LLP, the Group's independent auditors, who are members of the Institute of Chartered Accountants in England and Wales. The summary consolidated financial information as of and for the six-month periods ended June 30, 2010 and June 30, 2009 has been derived from the Group's unaudited consolidated financial statements included in this Prospectus. The unaudited consolidated financial statements for the Group as of and for the six-month period ended June 30, 2010, have been prepared on the same basis as Sovcomflot's audited consolidated financial statements and in accordance with IAS 34 and have been reviewed by Moore Stephens LLP. The Group's results for the six-month period ended June 30, 2009, have been included in the interim review report for the unaudited consolidated financial statements for the Group as of and for the six-month period ended June 30, 2010, for comparative purposes only. The results for any interim period are not necessarily indicative of the results that may be expected for a full year.

The summary financial and operating information set forth below should be read in conjunction with "Operating and Financial Review" included elsewhere in this Prospectus and Sovcomflot's financial statements and the notes to those financial statements included in this Prospectus.

Selected Consolidated Income Statement

	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
	(in thousands of U.S. dollars)				
Freight and hire receivable	678,454	611,919	1,222,415	1,634,078	1,242,715
Voyage expenses and commissions	(181,964)	(120,726)	(290,101)	(397,162)	(266,692)
Time-charter equivalent revenues	496,490	491,193	932,314	1,236,916	976,023
Direct operating expenses					
Vessels' running costs	(153,832)	(141,191)	(287,934)	(274,964)	(236,647)
Charter hire payments	(7,372)	(7,005)	(14,112)	(21,014)	(12,539)
Vessels' drydock cost amortization	(20,019)	(21,020)	(42,512)	(41,104)	(41,774)
	(181,223)	(169,216)	(344,558)	(337,082)	(290,960)
Profit on vessels' trading	315,267	321,977	587,756	899,834	685,063
Depreciation and amortization	(117,459)	(114,065)	(226,500)	(242,872)	(141,449)
Bad and doubtful debts	(139)	22	(158)	(784)	(576)
General and administrative expenses	(42,550)	(37,166)	(80,130)	(103,253)	(84,851)
Total other operating expenses	(160,148)	(151,209)	(306,788)	(346,909)	(226,876)
Profit from vessels' operations	155,119	170,768	280,968	552,925	458,187
Other operating income (expenses)	7,229	1,649	39,652	(19,052)	132,986
Operating profit	162,348	172,417	320,620	533,873	591,173
Interest expense, net	(42,368)	(41,411)	(88,107)	(87,302)	(89,998)
Other (expenses)/income	(7,819)	(3,418)	330	(35,018)	(7,849)
Profit before income taxes	112,161	127,588	232,843	411,553	493,326
Income taxes	(939)	(10,785)	(16,005)	(5,313)	(22,485)
Profit for the period	111,222	116,803	216,838	406,240	470,841
Attributable to:					
Owners of the parent	107,053	107,863	202,921	340,680	391,009
Minority interest	4,169	8,940	13,917	65,560	79,832

Selected Consolidated Statements of Financial Position

	As of Ended June 30,		As of December 31,		
	2010	2009	2009	2008	2007
	(in thousands of U.S. dollars)				
Cash and cash equivalents	400,413	334,050	335,695	298,119	293,933
Fleet	4,946,275	4,402,755	4,766,487	4,210,107	3,640,147
Tonnage under construction	347,109	734,203	506,405	880,079	983,142
Other assets	469,436	340,787	459,053	338,691	357,420
Total assets	6,163,233	5,811,795	6,067,640	5,726,996	5,274,642
Current secured bank loans	161,285	202,237	196,878	207,065	151,871
Current finance lease liabilities	48,365	13,265	54,099	12,251	1,300
Non-current secured bank loans	2,406,144	2,111,099	2,334,698	2,087,321	2,102,982
Non-current finance lease liabilities	13,787	104,666	57,732	110,444	17,348
Derivative financial instruments	101,235	65,171	57,959	137,688	37,569
Other liabilities	320,033	345,019	291,380	355,264	241,082
Total liabilities	3,050,849	2,841,457	2,992,746	2,910,033	2,552,152
Minority interest	203,226	221,446	203,568	349,274	437,148
Total equity	3,112,384	2,970,338	3,074,894	2,816,963	2,722,490

Selected Consolidated Cash Flow Statements

	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
	(in thousands of U.S. dollars)				
Net cash inflow from operating activities	254,217	316,971	513,991	853,517	613,028
Net cash outflow from investing activities	(163,271)	(242,618)	(489,324)	(702,707)	(683,094)
Net cash inflow/(outflow) from financing activities	(22,834)	(35,621)	14,512	(128,865)	61,415

Other Financial and Operating Data

	As of June 30,		As of December 31,		
	2010	2009	2009	2008	2007
	(in thousands of U.S. dollars)				
EBITDA[(1)]	292,007	304,084	589,962	782,831	766,547
Adjusted EBITDA[(1)]	292,597	305,853	549,980	836,901	641,410
Ratio of net debt/capitalization[(2)]	41.7%	41.4%	42.9%	42.9%	42.1%
Total voyage days for fleet[(3)]	24,093	22,238	46,382	44,906	43,521
Total time-charter days for fleet	14,489	14,392	29,309	29,834	29,320
Total spot market days for fleet	9,604	7,846	17,073	15,072	14,200

(1) EBITDA represents earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA before other non-operating (expenses)/income, gain/(loss) on hedging instruments, gain/(loss) on derivative financial instruments held for trading, loss on available-for-sale investments, impairment of goodwill, differences on foreign exchange, reversal/(provision) for impairment of tonnage under construction, reversal/(provision) of onerous contract, (loss)/gain on sale of assets, gain on disposal of investments, net other operating income and share of (losses)/gains in associated undertakings.

EBITDA and Adjusted EBITDA are used as supplemental financial measures by management and by external users of our financial statements, such as investors, as discussed below:

— *Financial and operating performance.* EBITDA and Adjusted EBITDA assist the Group's management and security holders by increasing the comparability of the Group's fundamental performance from period to period and against the fundamental performance of other companies in the Group's industry that provide EBITDA or Adjusted EBITDA-based information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization (or other items in determining Adjusted EBITDA), which are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. Management of the Group believes that including EBITDA and Adjusted EBITDA as a financial and operating measure benefits security holders in (a) selecting between investing in the Group and other investment alternatives and (b) monitoring the Group's ongoing financial and operational strength and health in assessing the Group's ability to meet its debt obligations and whether to hold the Group's securities.

— *Liquidity.* EBITDA and Adjusted EBITDA allow management of the Group to assess the ability of assets to generate cash sufficient to service debt, pay dividends and undertake capital expenditures. By eliminating the cash flow effect resulting from the Group's existing capitalization and other items that may vary significantly from period to period, EBITDA and Adjusted EBITDA provide a consistent measure of the Group's ability to generate cash over the long term. The Group's management uses this information as a significant factor in determining (a) the Group's capitalization (including assessing how much debt to incur and whether changes to the capitalization should be made) and (b) whether to undertake material capital expenditures and how to finance them, all in light of the Group's dividend policy. Use of EBITDA and Adjusted EBITDA as liquidity measures also permits security holders to assess the fundamental ability of the Group's business to generate cash sufficient to meet cash needs, including repayments under debt instruments.

EBITDA and Adjusted EBITDA are not determined in accordance with IFRS or any other generally accepted accounting principles and should not be considered as an alternative to profit for the period, operating profit, profit from vessels' operations or any other measure of financial performance or liquidity presented in accordance with IFRS. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect profit for the period and operating income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies. See "Presentation of Financial and Other Data."

The following table reconciles the Group's historical consolidated EBITDA and Adjusted EBITDA to profit for the period:

	Six Months Ended June 30,		Year Ended December 31,		
	2010	**2009**	**2009**	**2008**	**2007**
			(in thousands of U.S. dollars)		
Reconciliation of EBITDA and Adjusted EBITDA to Net profit					
Net profit	111,222	116,803	216,838	406,240	470,841
Interest expense, net of bank and other interest receivable	42,368	41,411	88,107	87,302	89,998
Income taxes	939	10,785	16,005	5,313	22,485
Depreciation and amortization	117,459	114,065	226,500	242,872	141,449
Vessels' drydock cost amortization	20,019	21,020	42,512	41,104	41,774
EBITDA	292,007	304,084	589,962	782,831	766,547
Other non-operating (expenses)/income	(2,476)	2,196	1,563	(30,907)	4,710
Gain/(loss) on hedging instruments	1,558	(2,961)	(3,349)	5,418	1,814
Gain/(loss) on derivative financial instruments held for trading	7,805	(9,568)	(7,881)	36,857	4,432
Loss on available-for-sale investments	—	—	—	1,061	—
Impairment of goodwill	—	3,074	3,074	5,932	—
Differences on foreign exchange	932	10,677	6,263	16,657	(3,107)
Reversal/(provision) for impairment of tonnage under construction	—	950	(13,964)	17,813	—
Reversal/(provision) of onerous contract	—	1,050	(22,069)	40,687	—
(Loss)/gain on sale of assets	(3,987)	2,442	2,395	(26,420)	(120,825)
Gain on disposal of investments		(141)	(406)	(190)	(2,588)
Net other operating income	(3,676)	(4,819)	(8,983)	(10,829)	(10,927)
Share of (losses)/gains in associated undertakings	434	(1,131)	3,375	(2,009)	1,354
Adjusted EBITDA	292,597	305,853	549,980	836,901	641,410

(2) Net debt includes secured bank loans and finance lease liabilities less cash and cash equivalents. Capitalization is the sum of net debt and total equity.

(3) Total voyage days for fleet are the total days the Group's vessels were in the Group's possession for the relevant period, net of off-hire days associated with major repairs, drydockings or special or intermediate surveys.

RISK FACTORS

An investment in the Notes involves risks. You should carefully consider all of the information in this Prospectus, including the following risk factors, before deciding to invest in the Notes. The actual occurrence of any of the following events could have a material adverse effect on the Group's business, financial condition, prospects and results of operations, which may adversely affect the Issuer's ability to make payments and fulfill its other obligations under the Notes and Sovcomflot's ability to fulfill its obligations under the Guarantee.

Most of these factors are contingencies that may or may not occur, and the Group is not in a position to express a view on the likelihood of any such contingency occurring. The risks described below are not exhaustive and are only those that management of the Group believes are material, but these may not be the only risks and uncertainties that the Group faces. Additional risks that are not currently known or that are currently deemed immaterial may also have a material adverse effect on the Group's business, financial condition, prospects and results of operations or result in other events that could lead to a diminution of the Issuer's ability to fulfill its obligations. You could therefore lose a substantial portion or all of your investment in the Notes. Consequently, an investment in the Notes should only be considered by persons who can assume such risks.

Risks Relating to the Group's Industry

Shipping charter rates, the demand for shipping services and the Group's profitability have been and may continue to be adversely affected by the global economic downturn and volatility in both the global and local markets.

The shipping industry is closely tied to, and is affected by developments in, the global economy. In 2008 and 2009, there was a significant adverse shift in the global economy, with operating businesses facing tightening credit, weakening demand for goods and services, deteriorating international liquidity conditions and declining markets. The global economic downturn negatively affected the volume of international trade activities, resulting in significantly lower demand for shipping services. In such a depressed global economic environment, the Group was not, and may not be, if such conditions were to occur again, able to employ its vessels at favorable or profitable charter rates. According to CRSL, average spot charter rates declined from their peaks rates in 2008 of US$ 117,643 per day for Suezmax tankers and US$ 72,733 per day for Aframax tankers, to their trough rates in 2009 of US$ 12,113 per day for Suezmax tankers and US$ 5,754 per day for Aframax tankers. There can be no assurance that such depressed tanker freight rates will not continue or deteriorate further. In fact, management of the Group expects the current oversupply of tankers in the global market (see "—Overcapacity in the tanker industry may continue or increase in the future.") and depressed world freight rates to continue through 2012 as a result of a decline in worldwide cargo volumes and significant deliveries of newbuildings.

The market value of the Group's vessels could also decrease significantly, which may cause the Group to recognize losses if any of its vessels are sold or their values are impaired, as was the case in 2008 when the Group's management carried out an impairment review of the Group's fleet on a vessel-by-vessel basis using prevailing market values at that time, which led to a recognition of impairment losses of US$ 42.2 million in aggregate, as reflected in note 7 to the Audited Consolidated Financial Statements of the Group for the year ended December 31, 2008. Moreover, such a decline in the market value of the Group's vessels could prevent the Group from borrowing under certain credit facilities or may trigger a default under its covenants. In addition, long-term charter customers could seek to renegotiate the terms of their charters with the Group or have difficulty meeting their payment obligations to the Group. If the current global economic environment persists or deteriorates, or if depressed tanker freight rates continue, it could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The tanker industry and the Group's business are subject to strong cyclical variations.

Historically, the tanker industry has been cyclical, experiencing volatility in profitability due to changes in the supply and demand for tanker capacity, and the Group's ability to employ its vessels profitably will depend upon, among other things, economic conditions in the tanker market. The demand for tanker capacity is influenced by a number of different factors, including the supply and demand for crude oil and oil products, regional availability of refining capacity, global and regional economic conditions, the distance oil and oil products are to be moved by sea and changes in seaborne and other transportation patterns. Similarly, the supply of tanker capacity is influenced by a number of different factors, including the number of newbuilding deliveries, the scrapping rate of older vessels, conversion of tankers to other uses, the number of vessels that are out of service and environmental concerns and

regulations. These and other factors affecting the supply and demand for tanker capacity may continue to cause significant volatility in charter rates and the volume of crude oil and oil products transported by sea.

If the tanker market is depressed, the consequent decrease in charter rates could have an adverse impact on the Group's earnings and available cash flow, particularly with respect to the Group's tankers that are chartered in the spot market, which are more exposed to volatility in charter rates and which accounted for approximately 53.1%, 41.2% and 49.8% of the Group's time-charter equivalent revenues during 2008, 2009 and the six months ended June 30, 2010, respectively.

The cyclical nature of the tanker industry has caused, and may continue to cause, significant fluctuations in the Group's revenue and profitability and may also cause significant fluctuations in the Group's cash flow and the value of the Group's vessels. Many of the factors influencing the supply and demand for tanker capacity are outside the Group's control, and the nature, timing and degree of changes in industry conditions are unpredictable. Further decreases in the demand for transportation of oil over longer distances or increases in the supply of tankers could lead to significantly lower freight rates, reduced volume or both, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Overcapacity in the tanker industry may continue or increase in the future.

Tanker capacity is a decisive factor affecting profitability, and the world tanker fleet has grown significantly in recent years based on both number of ships and DWT. According to CRSL, 455 additional crude oil tankers were on order from shipyards as of September 2010, and vessels equivalent to approximately 28% of the world's crude oil tanker fleet are expected to be delivered by the end of 2012. As a result of this growth in the tanker fleet, and consequently low prevailing charter rates in recent periods, the Group has not entered into time charters in respect of any of the Group's newbuildings. Overcapacity in the tanker industry is likely to persist or increase if demand continues to fall, which may lead to further decreases in the charter rates, which could adversely affect the Group's freight and hire receivable on vessels that are engaged on the spot market, which will include the newbuildings upon their delivery. Capacity alterations are based on various assumptions and estimates made by the industry and individual companies with respect to market growth and the future development of demand for shipments of oil and oil products by sea. If these assumptions and estimates prove to be incorrect and/or if overcapacity in the tanker industry persists or increases further, it could have an adverse impact on the industry and the Group's business, financial condition, prospects and results of operations.

Environmental accidents, such as oil, fuel or chemical spills, expose tanker operators to significant potential environmental costs and liabilities.

The operation of any oceangoing vessel carries with it an inherent risk of marine disasters or other events that may cause severe environmental damage to the areas in which such vessels operate (see "—Shipping companies are exposed to the risk of losses from marine disasters, mechanical failures and other similar events that may disrupt their operations."). In particular, the cargoes carried in energy shipping operations are extremely hazardous to the environment and may spread in the water to distant areas and coastlines, and spills of any such cargo may be very difficult and costly to clean up. Any such environmental accidents could also give rise to statutory claims and claims from third parties, such as fishermen, hotel operators or other persons or entities whose businesses are negatively affected by any such accident. As a result, environmental mishaps, such as spills of oil, fuel or chemicals may expose the Group to potential costs that far exceed the value of the cargoes carried and the ships on which they are transported. There can be no assurance that such an environmental accident will not occur or that its insurance will provide sufficient coverage for any resulting costs and liabilities. In the event that any such claims were assessed directly against the Group, all the Group's assets could be subject to attachment and other judicial process.

Shipping companies are exposed to the risk of losses from marine disasters, mechanical failures and other similar events that may disrupt their operations.

Shipping companies can suffer significant losses if a vessel is lost, subject to an accident or its operations are otherwise disrupted. The operation of vessels has inherent risks, including: marine disasters; mechanical malfunctions or failures of the vessels or their equipment; human error; inclement weather; war, piracy and terrorist attacks that could damage the Group's vessels, impose security-related costs and liabilities, prohibit the use of certain ports or decrease world trade generally; and business interruptions

due to social or political instability, including hostilities, labor strikes, port and canal closings and boycotts. In particular, the Group operates a portion of its business in the Arctic region, where the harsh weather and ice conditions increase the risk of accidents, such as striking an iceberg, ice compression or business disruptions due to weather. The occurrence of one or more of these risks could lead to a number of adverse effects on the Group, including death or injury to persons, pollution or loss of property; delays in the delivery of shipments; loss of revenues from, or termination of, charter contracts; governmental fines, penalties or restrictions on conducting the Group's business; higher insurance rates; and damage to the Group's reputation and customer relationships generally.

In particular, management considers the Group's safety and performance record to be critical to its business reputation. Major oil companies that are the principal customers of the Group increasingly prefer modern vessels operated by ship management companies with a reputation for safety and environmental compliance. Any incident involving the Group's vessels that results in material environmental damage or pollution could harm the Group's reputation accordingly and decrease demand for the Group's services. The occurrence of any one or more of these events could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The tanker industry and the Group's operating results are subject to seasonal fluctuations.

The Group operates in markets that have historically exhibited seasonal variations in demand and, therefore, in charter rates. This seasonality may result in quarter-to-quarter volatility in the Group's results of operations. Demand in the tanker markets is relatively lower in the period from May to August and higher in the period from December to February, as a result of increased oil consumption in the northern hemisphere. In addition, unpredictable weather patterns in the period from December to February tend to disrupt vessel scheduling, which historically has increased oil price volatility and oil trading activities during the same period. As a result, the Group's revenues have historically been weaker during the fiscal quarters ended June 30 and September 30 and stronger in the Group's fiscal quarters ended March 31 and December 31. Should market fluctuations be greater than expected, this could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group operates in a highly fragmented and competitive industry.

The shipping industry (including the energy shipping businesses) is affected by developments in the world's largest economies that influence trade patterns and is highly fragmented with many global, regional and local shippers, owners and operators of vessels. The industry is characterized by intense competition. Competition among energy carriers is based on, among other things, scheduling, price, vessel availability, size, age and condition of the vessel, relationships with customers and others and the quality, experience and reputation of the ship operator. With the current degree of fragmentation and overlap among carriers in the market, any of the Group's many competitors may choose to establish themselves on the same routes as the Group's established routes and attempt to undercut the Group's charter rates on those voyages.

The Group's primary competitors are independent and state-owned, ocean-going energy carriers worldwide. Tanker companies also face competition from non-seaborne methods for transporting oil and oil products, such as companies that own and operate pipelines. These competitors may be able to devote greater resources to the development, promotion and employment of their businesses than the Group. Competition may increase in some or all of the Group's principal markets and may have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Time-charter rates for vessels may fluctuate substantially over time and may be lower when the Group is attempting to recharter its vessels.

The Group's ability to recharter its vessels following the expiration or termination of existing time-charter contracts, as well as the rates payable upon any such renewal or replacement charters, will depend upon, among other things, the state of the market at the time of such renewal or replacement charter. The energy shipping industry is highly competitive and has experienced significant fluctuations in charter rates based on, among other things, the demand for oil, oil products, gas and vessels. See "—The tanker industry and the Group's business are subject to strong cyclical variations." For example, overcapacity of crude oil tankers or other vessels has reduced, and may continue to reduce, tanker charter rates significantly. See "—Overcapacity in the tanker industry may continue or increase in the future."

As of June 30, 2010, most of the Group's conventional tanker time-charter contracts, as well as three LNG and LPG carrier time-charter contracts expire within the next three years. If the Group were to

attempt to replace or renew its long-term charters when the tanker market is depressed, it could require the Group to redeploy its vessels at less favorable time-charter rates or subject the Group's vessels to the spot market until charter rates recover, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group operates in an industry that is subject to extensive regulation that may require the Group to incur substantial costs in meeting existing and future regulatory requirements or limit the Group's ability to do business.

The shipping industry is highly regulated, and the Group's operations are affected by extensive and evolving environmental protection laws and other regulations in the form of numerous international, regional, national and local laws, regulations, treaties and conventions that are in force where the Group's vessels operate. See "Regulatory Overview." Such laws and regulations impose significant requirements on the Group, many of which are designed to promote health and safety, as well as to reduce the risk of oil spills and other pollution. These requirements include, among others, obligations relating to air emission, maintenance and inspection of the Group's vessels; development and implementation of emergency procedures; and acquisition of adequate insurance coverage. Moreover, management of the Group believes that the heightened environmental, quality and security concerns of national and international regulators, insurance underwriters and the Group's customers will lead to additional regulatory requirements, including enhanced security and inspection requirements on vessels. Management of the Group expects to incur substantial expenses in continuing to comply with such current and future laws and regulations, including expenses for ship modifications and changes in operating procedures.

In particular, seaborne vessels such as the Group's are required to operate within the rules and regulations adopted by the International Maritime Organization ("**IMO**"), an agency of the United Nations, as well as the environmental protection laws, health and safety regulations and other marine protection laws in each of the jurisdictions in which the Group's vessels operate. See "Regulatory Overview—International Maritime Organization." Since the International Safety Management Code (the "**ISM Code**") became effective in 1998, shipping companies and individual vessels have been required to establish safety systems and have them certified by standardization bodies. In complying with current and future IMO rules and regulations, the Group may be required to incur additional costs in meeting new maintenance and inspection requirements, including ship modifications and changes in operating procedures; in developing contingency arrangements for potential contamination by vessels; and in obtaining, maintaining or renewing insurance coverage. Because such laws and regulations are often revised, the Group is unable to predict the timing or extent of the long-term costs of compliance.

The requirements of these laws and regulations can affect the resale value or useful lives of the Group's vessels, require ship modifications, a reduction in cargo capacity, or operational changes or restrictions, lead to increased cost or decreased availability of insurance coverage for environmental matters, limit access to certain jurisdictional waters or result in the denial of access to, or detention in, certain ports. The Group could also face substantial liability for penalties, fines, damages, cleanup obligations and remediation costs associated with hazardous substance spills or other discharges into the environment involving the Group's vessels, as well as misconduct or incidents of non-compliance by the Group's crewmembers under environmental laws and regulations. See "—Shipping companies are exposed to the risk of losses from marine disasters, mechanical failures and other similar events that may disrupt their operations." The Group could also become subject to personal injury and property damage claims relating to the release of, or exposure to, hazardous materials associated with the Group's operations. Moreover, failure to comply with applicable laws and regulations may result in criminal sanctions or the suspension or termination of the Group's operations, including, in certain instances, seizure or detention of the Group's vessels. The occurrence of any one or more of these events could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Increased inspection procedures and tighter import and export controls could increase costs and disrupt the Group's business.

International shipping is subject to various security and customs inspections and related procedures in countries of origin and destination. Inspection procedures can result in the seizure of contents of the Group's vessels; delays in the loading, offloading or delivery of the products carried by the Group's vessels; and the levying of fines and other penalties against the Group. It is possible that changes to inspection procedures could impose material additional financial and legal obligations on the Group. Furthermore, changes to inspection procedures could also impose additional costs and obligations on the Group's customers and may, in certain cases, render the shipment of certain types of cargo impractical or

unprofitable. Any such changes or developments may have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Acts of piracy on ocean-going vessels have recently increased in frequency.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and in the Gulf of Aden off the coast of Somalia. Throughout 2009 and 2010, the frequency of pirate incidents increased significantly, particularly in the Gulf of Aden off the coast of Somalia and in the Indian Ocean, where the Group operates. On May 5, 2010, the Group's vessel, *Moscow University*, was captured by pirates off the coast of Somalia, carrying 23 crewmembers and approximately 86,000 tons of crude oil. The vessel was recaptured by Russian special forces the following day. A further pirate attack on a Group vessel could lead to, among other things, bodily injury or loss of life or vessel or other property damage. Such an attack could also increase the Group's onboard security costs to the extent the Group chooses to take additional security measures onboard its vessels, such as hiring onboard security guards or installing or renovating "safe rooms" onboard the Group's vessels. In addition, the areas in which pirate attacks occur are considered by the Group's insurers to be "areas of perceived enhanced risk," and the Gulf of Aden is currently included in the Joint War Committee Hull, War, Strikes, Terrorism and Related Perils Listed Areas as of August 2, 2010. These designations require a vessel operator to pay higher premiums in order to maintain its insurance coverage while operating in these areas, and the crew of ships may refuse to enter such areas and demand repatriation, which could increase the Group's insurance or other costs. The occurrence of any one or more of these events could have a material adverse impact on the Group's business, financial condition, prospects and results of operations.

Governments could order the requisition of the Group's vessels during a period of war or emergency without adequate compensation.

A government could order the requisition of or seize one or more of the Group's vessels for title or for hire. Requisition for title occurs when a government takes control of a vessel and becomes its owner. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions for title or for hire occur during periods of war or emergency. There can be no assurance that governments will not requisition one or more of its vessels, and any such requisition may have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Terrorist attacks, increased hostilities or war could lead to economic instability and disrupt the Group's business.

Terrorist attacks and other current and future conflicts, such as the attacks that occurred in the United States on September 11, 2001, the bombings in Spain on March 11, 2004, the bombings in London on July 7, 2005, the bombing of the MV Limburg tanker in the Gulf of Aden on October 6, 2002, and the current conflicts in Iraq and Afghanistan, continue to cause uncertainty in the world financial markets and may affect the Group's business, financial condition, prospects and results of operations. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may contribute further to economic instability. In addition, oil facilities, shipyards, vessels, pipelines and oil and gas fields could be targets of future terrorist attacks. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operating costs, including insurance costs, and the inability to transport oil and oil products to or from certain locations. Terrorist attacks and war or other events beyond the Group's control that have an adverse effect on the production, transportation or distribution of oil and oil products could entitle the Group's customers to terminate the Group's charter contracts, which would have an adverse effect on the Group's business, financial condition, prospects and results of operations.

Maritime claimants could arrest the Group's vessels, which could interrupt the Group's cash flow.

Crewmembers, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel (and, in some jurisdictions, any vessel owned or controlled by the same owner) for unsatisfied debts, claims or damages, even when protection and indemnity insurance is available to cover any such debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of the Group's vessels could interrupt the Group's cash flow and require the Group to pay large sums of funds to have the arrest or attachment lifted. Any such arrest or attachment of one or more of the

Group's vessels could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Risks Relating to The Group's Business

The Russian Federation, whose interests may not coincide with those of the Noteholders, controls the Group and has a substantial degree of influence over the Group's operations.

The Russian Federation currently owns 100% of Sovcomflot's ordinary voting shares and manages this stake through the Federal Agency for the Management of State Property ("**Rosimushchestvo**"). In addition, two members of Sovcomflot's nine-member Board of Directors are Russian Deputy Ministers and one member is the Chief Staff of the Presidential Executive Office of the Russian Federation. All nine members, including Sovcomflot's CEO, were nominated and appointed by the Russian Government. The Russian Federation controls the Group's operations through its share ownership in Sovcomflot and its representation on Sovcomflot's Board of Directors. The Russian Federation may also exercise substantial influence over the Group's operations through its regulatory, taxation and legislative powers. Due to these factors, the Russian Federation could, through its share ownership and representation on the Board of Directors, or through its regulatory, taxation or legislative powers, cause the Group to take actions that may not coincide with the interests of the Noteholders.

Changes in the tanker spot market may result in significant fluctuations in the utilization of the Group's vessels and the Group's profitability.

During 2008, 2009 and the six months ended June 30, 2010, the Group derived approximately 53.1%, 41.2% and 49.8%, respectively, of the Group's time-charter equivalent revenues from the Group's vessels that are chartered in the spot market. These vessels include conventional crude oil tankers and product carriers operating on the spot tanker market or contracts of affreightment priced on a spot-market basis. Part of the Group's conventional Aframax and Suezmax tanker fleets and the Group's large and medium product tanker fleets are among the vessels that operate in the spot market. Due to activity in the spot-charter market, declining spot rates in a given period generally will result in corresponding declines in the Group's operating results for that period.

The spot-charter market is highly volatile and fluctuates based upon tanker and oil supply and demand. See "—Risks relating to the Group's Industry—Shipping charter rates, the demand for shipping services and the Group's profitability have been and may continue to be adversely affected by the global economic downturn and volatility in both the global and local markets." The profitable and successful operation of the Group's vessels in the spot market depends upon, among other things, obtaining profitable spot-charter rates and minimizing, to the extent possible, time spent by vessels waiting for new charters and traveling in ballast condition to pick up cargo. During 2009, there were periods when spot rates in certain segments have declined below the operating cost of vessels. Future spot rates may not be sufficient to enable the Group's vessels trading in the spot tanker market to operate profitably or to provide sufficient cash flow to service the Group's debt obligations, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group is exposed to the risk of defection or non-payment by key customers.

The Group derives a significant portion of its revenues from Russian and international oil and gas companies. During 2009, the Group's largest customer accounted for approximately 9% of the Group's gross revenues, and the Group's 10 largest customers accounted for approximately 52% of the Group's gross revenues over the same period. If one or more of the Group's key customers breach or terminate their charter contracts or renegotiate or renew them on terms less favorable than those currently in effect, or if any such customer decreases the amount of business it transacts with the Group, it could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Rising fuel prices and other unexpected expenses may adversely affect the Group's profitability.

Fuel comprises a significant portion of the Group's operating costs, and the Group is sensitive to changes in the price of marine bunker fuel. In 2009, marine bunker fuel accounted for 54.6% of the Group's voyage expenses and commissions. The price and supply of marine bunker fuel is unpredictable and fluctuates based on events outside the Group's control, including economic and geopolitical developments, supply and demand for oil and gas, actions by the Organization of the Petroleum Exporting Countries and other oil and gas producers, war and unrest in oil-producing countries and regions, regional

production patterns and environmental concerns. In recent years, the prices for marine bunker fuel have shown increased volatility, and the Group historically has hedged only a small portion of its exposure to increases in the price of marine bunker fuel. Most recently, the Group's fuel costs increased 60% for the six months ended June 30, 2010, compared to the six months ended June 30, 2009. A significant or sustained increase in the price of marine bunker fuel, or reduction in supply, could increase the Group's operating expenses and have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group's level of indebtedness could limit cash flow available for the Group's operations and could adversely affect the Group's operations and flexibility.

Historically, on average, the majority of the acquisition and construction price for the Group's vessels has been funded by borrowings, including borrowings to fund progress payments on newbuildings that the Group purchases. As of June 30, 2010, the Group's short-term borrowings and long-term borrowings amounted to US$ 209.7 million and US$ 2,419.9 million, respectively. See "Capitalization" and Notes 7 and 8 to the Group's condensed consolidated financial statements for the six months ended June 30, 2010. As of December 31, 2009 and June 30, 2010, the Group's ratio of net debt to total capitalization was 42.9% and 41.7%, respectively. The Group's indebtedness could restrict the Group's operations. Among other things, the Group's indebtedness may limit the Group's ability to pay dividends; incur or guarantee indebtedness or otherwise obtain additional financing for working capital, capital expenditures, acquisitions of vessels or other strategic acquisitions and general corporate purposes; require the Group to dedicate all or a substantial portion of the Group's cash flow to service the Group's debt, which would reduce funds available for other business purposes, such as capital expenditures, investments or acquisitions; limit the Group's flexibility in planning for or reacting to changes in the markets in which the Group competes, such as engaging in strategic acquisitions or disposing of assets; place the Group at a competitive disadvantage relative to the Group's competitors with less indebtedness; render the Group more vulnerable to general adverse economic and industry conditions; and make it more difficult for the Group to satisfy its financial obligations, including the Notes, or to refinance maturing indebtedness. See "—Risks relating to the Notes—The Group has a significant amount of indebtedness that matures in 2013, which could have an adverse impact on the Group's ability to fulfill its obligations under the Notes and the Guarantee."

The Group may not be able to obtain sufficient financing to implement its strategic plan and may have difficulties increasing the size of its fleet at prices, terms or delivery times acceptable to the Group.

Under the Group's strategic plan for 2010 to 2015, the Group has designed an investment program that envisages significant capital expenditures with the intention of focusing investments on the needs of the Group's core customers, with a particular emphasis on long-term industrial projects that can deliver recurring and predictable cash flows, particularly in the Arctic, where the Group has competitive advantages, while maintaining a conservative leverage ratio. See "Business—Group Strategy." In particular, management of the Group plans to acquire additional highly specialized ice-class tankers and supply vessels, and management of the Group intends to build other tanker vessels for segments in which the Group already operates, as well as in new market segments, such as the VLCC crude tanker and LR1 product tanker segments. There can be no assurance that the Group will be able to identify shipyards that can construct such vessels to the Group's specifications at prices, financing terms or delivery time acceptable to the Group.

Furthermore, third parties may not be willing to sell to the Group secondhand vessels that meet the Group's size and quality requirements or that will be available at prices or delivery times acceptable to the Group. As a result, there can be no assurance that the Group will be able to obtain vessels on a timely basis to take advantage of opportunities the Group identifies in the market and, as a result, the Group may not be able to implement its investment program. Moreover, sellers of secondhand vessels typically provide very limited or no warranties with respect to the condition of the vessels, and the Group's inspections of secondhand vessels prior to purchase would not normally provide the Group with the same knowledge about the condition of the vessels that the Group would have if the vessels had been built for, or operated by, the Group. There can be no assurance that the purchase of secondhand vessels will not result in higher than anticipated operating expenditures, including repair costs.

The Group's acquisitions of newbuildings and secondhand vessels require substantial amounts of capital and other long-term expenditures, part of which is expected to be funded through borrowings. See "—The Group's level of indebtedness could limit cash flow available for the Group's operations and could

adversely affect the Group's operations and flexibility." The Group's ability to obtain external financing in the future for its planned capital expenditures is subject to a number of uncertainties, including operating and other conditions in the shipping industry; general market conditions for financing activities; economic, political and other conditions in regions where the Group operates and elsewhere; and the Group's future financial condition and results of operations, including the market value of the Group's vessels. See "—Risks relating to The Group's Industry— Shipping charter rates, the demand for shipping services and the Group's profitability have been and may continue to be adversely affected by the global economic downturn and volatility in both the global and local markets." Substantially all of the Group's current newbuilding financing commitments have been pre-arranged. However, if the Group were unable to obtain financing on acceptable terms to complete payments on any of the Group's current or future newbuilding orders, the Group could effectively forfeit all or a portion of the progress payments previously made. As of June 30, 2010, the Group had 11 newbuildings on order, nine of which are expected to be delivered by the end of 2010, and two in early 2011. As of June 30, 2010, progress payments made toward these newbuildings totaled US$ 321 million. If the Group were unable to obtain financing in a timely manner, on acceptable terms or at all, the Group's ability to acquire additional vessels or to implement its investment program may be impaired, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group is exposed to the risk of delays or defaults by shipyards.

The Group regularly contracts with shipyards, and acquires shipyard contracts from third parties, to acquire newbuildings. Any such newbuilding projects would be subject to the risk of delay or defaults by shipyards caused by, among other things, unforeseen quality or engineering problems, work stoppages, weather interference, unanticipated cost increases, delays in receipt of necessary equipment, inability to obtain the requisite permits or approvals and other factors that are beyond the Group's control. Moreover, the Group is required to deploy substantial sums in the form of down payments and progress payments during the construction of newbuildings, but the Group does not derive any revenue from such vessels until after their delivery. There can be no assurance that the Group's current or future newbuildings will be completed on schedule or at all. In accordance with industry practice, in the event any such shipyards are unable or unwilling to deliver the vessels on time or at all, the Group may not have substantial remedies. Failure to construct or deliver vessels by the shipyards or any significant delays could delay the redeployment of any prepaid amounts toward other uses or diminish the Group's future net income and cash flows.

If the duration of the Group's charter contracts is not extended, the Group will no longer generate revenue under the related contract and will need to seek to redeploy affected vessels.

The majority of contracts under which the Group's vessels operate are for a fixed term (mostly for a term of between one and three years), and are subject to extension at the option of the Group's customers. The likelihood of these contracts being extended may be negatively affected by reductions in oil field reserves, low oil prices generally or other factors. Any potential redeployment may not be under long-term contracts, which may affect the stability of the Group's business and operating results. If the Group is unable to promptly redeploy any affected vessels at favorable or profitable rates, or at all, it may have a material adverse effect on the Group's business, financial condition, prospects and operating results.

Fluctuations in the market value of the Group's vessels may materially and adversely affect the Group's results of operations and the Group's ability to obtain additional financing.

The market value of vessels fluctuates depending upon a number of factors, including general economic and market conditions affecting the industry, demand for vessel capacity, the number, type, age and size of vessels in the world fleet, the price of newbuildings (which is affected by availability of shipyard berths and financing), the level of vessel scrapping, the impact of any port congestion on fleet productivity, the cost of other modes of transportation and swings in the historically cyclical shipping industry. Declining vessel values could make it more difficult for the Group to raise cash by mortgaging vessels and could have a material adverse effect on the Group's liquidity. Declining vessel values could also lead to a breach of loan covenants, which could give rise to events of default under the Group's financing agreements. If the market value of the Group's vessels declines, the Group may also be required to recognize impairment losses as it did in 2008 (see Note 7 of the Group's consolidated financial statements for the year ended December 31, 2008 and "Operating and Financial Review—Results of Operation—Years Ended

December 31, 2007 and December 31, 2008"), which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

A significant portion of the Group's fleet consists of ice-class vessels, which generally have higher operating costs than conventional tankers and may be difficult to redeploy in non-ice conditions.

Approximately 32.8% of the Group's vessels are ice-class vessels. Ice-class ships are specialized vessels that are generally constructed with stronger and heavier materials than conventional tankers to be able to withstand harsh weather and ice conditions safely. Such vessels typically also have more powerful engines than conventional tankers in order to navigate icy waters and to propel the heavier vessels effectively. As a result of such a design, ice-class vessels typically have higher voyage operating costs than conventional tankers, particularly due to significantly higher levels of fuel consumption. As a result, such ice-class vessels are less profitable than conventional tankers in markets or regions with non-ice conditions, and there can be no assurance that the Group will not be required to redeploy ice-class vessels at unfavorable rates. Additionally, the Group's customers may terminate certain of the Group's time-charter contracts prior to their expiration under specified circumstances. Any idle time prior to the commencement of a new contract or the Group's inability to redeploy the vessels at acceptable rates may have an adverse effect on the Group's business, financial condition, prospects and operating results.

The Group is exposed to interest rate and exchange rate risks.

The Group is exposed to interest rate movements through its variable rate financing arrangements, for instance, movements in LIBOR or the yield curve (market interest rates at different maturities) impact the market value of the Group's bank loans and the interest that the Group pays on such loans. As of June 30, 2010, the Group's total variable rate borrowings amounted to US$ 1,216 million. As a result, the Group is sensitive to changes in interest rates. If interest rates had been 100 basis points higher (or lower) and all other variables kept constant, the Group's total interest payable in the six months ended June 30, 2010 would have increased (or decreased) by approximately US$ 5.8 million. See "Operating and Financial Review—Liquidity and Capital Resources." Interest rates are sensitive to numerous factors not in the Group's control including, but not limited to, government and central bank monetary policy in the jurisdictions in which the Group operates. An increase in interest rates could also cause the Group's interest obligations to increase and could have an adverse effect on the Group's business, financial condition, prospects and results of operations.

Moreover, the functional currency for the Group's financial reporting according to IFRS is U.S. dollars. The Group generates almost all of the Group's sales in U.S. dollars, but incurs some of the Group's expenses, liabilities and capital expenditures in other currencies, primarily the ruble, the pound sterling and the euro. As a result, exchange rate fluctuations could adversely affect the Group's financial condition and results of operations. A decline in the value of the U.S. dollar against either the ruble, the pound sterling or the euro would require the Group to convert more U.S. dollars into such currencies to satisfy those obligations and could increase the Group's expenses and liabilities as reported under IFRS, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group utilizes various financial instruments, including hedging arrangements, to manage financial risks, which may not be successful.

The Group uses different types of interest rate derivative instruments to manage interest rate exposure, such as options and swap contracts. As of June 30, 2010, the Group had an outstanding nominal amount of interest rate derivatives of US$ 1,240.3 million, compared to US$ 1,261.6 million as of December 31, 2009. The Group cannot make any assurance, however, that it will continue such hedging or that current or future hedging will sufficiently protect the Group from the adverse affects of interest rate movement.

In addition, the Group potentially foregoes benefits that might result from fluctuations in interest rates by engaging in derivative contracts. For example, when the Group enters into interest rate swap agreements with third parties with respect to the Group's bank loans, management of the Group seeks to fix the interest payable by the Group under such loans, which may be higher than the interest the Group would have achieved in the absence of such agreements if interest rates decline. Additionally, the Group is exposed to credit risk in the event of the failure of counterparties to meet their obligations under these arrangements. The potential risk is the cost of replacement at current market prices of these transactions in the event of defaults by counterparties, and the impact of such a default may have an adverse effect on the Group's results of operations. Moreover, the success of the Group's hedging is highly dependent on the accuracy of its assumptions and forecasts. Any errors affecting such assumptions and forecasts could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Compliance with safety and other vessel requirements imposed by classification societies may be very costly.

The hull and machinery of every commercial tanker must be classed by a classification society authorized by its country of registry. All of the Group's vessels are certified as being "in-class" by Det Norske Veritas ("**DNV**"), Lloyd's Register, American Bureau of Shipping and the Russian Maritime Register of Shipping. These classification societies are members of the International Association of Classification Societies. The classification societies certify that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the vessel's country of registry and the Safety of Life at Sea Convention. Each classification society typically issues over 20 different certificates for each vessel. The certificates that are essential for trading include the International Loadline, Safety Construction, International Oil Pollution Prevention, Safety Equipment and Safety Radio certificates. See "Regulatory Overview—Inspection by Classification Societies."

A vessel must undergo scheduled surveys, annual surveys, intermediate surveys, drydocking surveys and special surveys and is sometimes subject to other surveys and inspections that are required pursuant to the regulations and requirements of the vessel's country of registry. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. The Group's vessels are on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Vessels are typically required to undergo special surveys, which include inspection of underwater parts, every 60 months; vessels over 15 years old are required to undergo drydocks approximately once every 30 months. Every vessel is also required to be drydocked every two to five years for inspection of the underwater parts of such vessel.

If any vessel does not maintain her class or fails any annual survey, intermediate survey, drydocking survey, special survey or other surveys performed by her classification society, that vessel may be unable to trade between ports and will be unemployable, and the Group may be required to incur substantial costs to meet these survey requirements. The failure to maintain a vessel's class or the failure of a vessel survey could also cause the Group to be in violation of the Group's insurance policies, and may allow the insurer to decline coverage. Such inability to trade between ports or violations of the Group's insurance policies could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Potential increases in tonnage taxes on the Group's vessels could increase the costs of the Group's operations

The Group's vessels are currently registered under the flags of Cyprus, Italy, Liberia, Malta, Spain, Singapore and Russia. These jurisdictions impose taxes based on the tonnage capacity of each of the vessels registered under their flag. The tonnage taxes imposed by these countries could increase, which could cause the costs of the Group's operations to increase.

The Group's insurance may not be sufficient to cover losses incurred by the Group.

The operation of oil and oil product tankers, LNG and LPG carriers and other vessels is inherently risky. See "—Risks relating to the Group's Industry—Shipping companies are exposed to the risk of losses from marine disasters, mechanical failures and other similar events that may disrupt their operations." Although the Group carries hull and machinery, war risks, protection and indemnity and other insurance, all risks may not be adequately insured against, and any particular claim may not be paid. In addition, the Group does not generally carry insurance on the Group's vessels covering the loss of earnings resulting from vessel off-hire time based on its cost compared to the Group's off-hire experience. Any significant off-hire time of the Group's vessels could harm the Group's business, financial condition, prospects and operating results. Any claims relating to the Group's operations covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain of the Group's insurance coverage is maintained through mutual protection and indemnity associations, and, as a member of such associations, the Group may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves.

The Group's insurance policies do not cover risks arising from the damage caused by wear and tear, and the damage caused by willful misconduct of ship's crewmembers and office managers. The Group has not purchased the type of insurance covering loss of earnings due to delay or detention caused by political unrest, labor strikes, arrest, crew desertion, crew illness, infectious diseases, stowaways, drug seizure and the inability to load or discharge cargo, all of which are considered as trading risks.

In recent years, insurance companies have increased premiums for certain types of insurance in the shipping industry, primarily for protection and indemnity insurance. The Group's insurance contains certain standard deductibles, limitations and exclusions, including limitations and exclusions with respect to certain losses arising from acts of war, terrorism, malicious acts, nuclear forces and willful misconduct or fraud. In addition, in the event that claims are asserted against the Group, the Group's vessels could be subject to attachment or other judicial processes, and insurers are not required to provide a letter of guarantee in case of arrest, attachment or detention of a vessel.

The Group may be unable to procure adequate insurance coverage at commercially reasonable rates in the future, particularly for operating in harsh weather and ice conditions. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. In addition, the Group's insurance may be voidable by the insurers as a result of certain of the Group's actions, such as the Group's ships failing to maintain certification with applicable maritime self-regulatory organizations. Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more expensive or impractical for the Group to obtain or maintain. In addition, the insurance that may be available may be significantly more expensive than the Group's existing coverage. Any uninsured or underinsured loss could adversely affect the Group's business, financial condition, prospects and results of operations.

Growth of the Group's fleet and operations may strain the Group's existing systems and management resources.

The Group's growth has placed and will continue to place significant demands on the Group's management, operational and financial resources. As the Group expands its operations, the Group must effectively manage and monitor operations, control costs and maintain quality and control in geographically dispersed markets. The Group's future growth and financial performance will also depend on the Group's ability to identify new markets and achieve acceptance by new customers; effectively compete in new markets; identify and engage in suitable joint venture arrangements and acquisitions; recruit, train, manage and motivate employees to support expanded operations; continue to improve customer support, financial controls and information systems; and take advantage of economies of scale which may result from operation of a large global fleet of vessels.

These efforts may not be successful and may not occur in a timely or efficient manner. Failure to effectively manage the Group's growth and the system and procedural transitions required by expansion in a cost-effective manner could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group is dependent on attracting and retaining qualified personnel at reasonable cost.

The Group may be unable to attract and retain key management personnel, crewmembers and other employees in the shipping industry, which would negatively affect the effectiveness of the Group's management, financial condition and results of operations. The Group's management makes key decisions to maximize the Group's revenue and earnings in a highly volatile and cyclical industry, and the Group's success will depend, in part, on the Group's ability to hire and retain key members of the Group's management team. Moreover, the Russian Federation, as Sovcomflot's only shareholder, may impose restrictions on incentives and other compensation paid to the Group management, which could limit the Group's ability to retain qualified managers. The loss of any one or more of these individuals could adversely affect the Group's business, financial condition, prospects or results of operations. In crewing the Group's vessels, the Group requires technically skilled employees with specialized training who can perform physically demanding work. Competition to attract and retain qualified crewmembers is intense. If crew costs increase and the Group is unable to increase the Group's charter rates to customers to compensate for any crew cost increases, the Group's financial condition and results of operations may be adversely affected. Difficulty in hiring and retaining qualified personnel and crewmembers could also adversely affect the Group's results of operations.

Labor disruptions could adversely affect the Group's operations.

Most of the Group's seafarers belong to unions, and the Group has two collective bargaining agreements with the Seafarer's Union of Russia, an affiliate of the International Transport Workers' Federation (the "**ITF**") that govern the Group's employment of seafarers serving on a substantial portion of the Group's vessels. These agreements were originally concluded for a term of two years, from 2008 to

2009, and were subsequently extended until December 31, 2010. In addition, the Group is party to a collective bargaining agreement with a Spanish seafarer trade union in relation to its Spanish seafaring employees, and the Group's employment of its seafarers is also governed by collective bargaining agreements among the Russian Federation and certain trade unions and industry organizations. These agreements are all subject to customary renegotiation, and the Group may also become subject to additional collective bargaining agreements in the future. If the Group's relations with its seafarers, the ITF or other trade unions deteriorate, or if the Group's employees or unions decide to strike or stop work for any other reason, the Group may be unable to operate its vessels, which could result in loss of revenues, increased costs and decreased cash flows. Further, the Group's collective bargaining agreements govern the wages paid by the Group to its seafaring employees, and there can be no assurance that future renegotiations will lead to wage levels acceptable to the Group. Any labor disruptions or significant increase in wages could harm the Group's operations and could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Risks relating to Russia

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets.

Prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with and fully appreciate the significance of the risks involved in investing in emerging markets.

Investors should be aware that emerging markets such as in Russia are subject to greater risk than more developed markets, including in some cases greater economic, political and social, and legal and legislative risks. Investors should also note that emerging economies are subject to rapid change and that the information set forth herein may become outdated relatively quickly.

Changes in Government policy and other Government actions could adversely affect the value of investments in the Russian Federation, including the Notes.

Since 1991, the Russian Federation has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the ineffectiveness or failure of some of them, the Russian political system in recent history was vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which had a negative effect on Russia's business and investment climate. The political situation has stabilized since 2000 and during the presidency of Vladimir Putin, and central authority was restored which made the political and economic situation in Russia more conducive to investment. For example, the head of each sub-federal political unit (for example, the governor of a region) is now nominated by the Russian President and confirmed by the legislature of the relevant unit. The most recent State Duma elections held on 2 December 2007 resulted in a further increase in the share of the aggregate vote received by United Russia and other political parties allied with the Russian President, bringing that percentage to more than two-thirds.

President Dmitry Medvedev assumed power from Vladimir Putin in May 2008 and Vladimir Putin became Prime Minister. Although a significant degree of continuity has been maintained between the two administrations and the Russian political system and the relationship between the President, the Government and the State Duma currently appear to be stable, future political instability could result from declines in the overall economic situation, and shifts in governmental policy and regulation in Russia could disrupt or reverse political, economic and regulatory reforms. Future changes in the Government, major policy shifts or lack of consensus could lead to political instability, which could have a material adverse effect on the value of investments relating to Russia, including the value of the Notes.

Economic instability in Russia could have an adverse effect on the Group's business.

The Russian economy has been subject to abrupt downturns in the past. For example, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian Federation defaulted on its ruble-denominated securities, the Central Bank stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and

severe devaluation of the ruble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies and resulted in the widespread loss of bank deposits.

From 2000 through the first half of 2008, Russia experienced rapid growth in its GDP, higher tax collections and increased stability of the ruble, a reduction in inflation and positive capital and current account balances resulting in part from rising prices in world markets for the crude oil, gas and metals that Russia exports. In addition, the Russian Federation achieved budget surpluses and accumulated a sizeable "stabilization fund," providing a certain degree of economic soundness. However, the Russian economy has been adversely affected by the global financial and economic crisis that began in the second half of 2008, which manifested itself through extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP around the world. In late 2008, at the outset of the economic recession, the Government announced plans to institute more than US$ 200 billion in emergency financial assistance in order to ease taxes, refinance foreign debt and encourage lending. The impact of the global financial crisis on the Russian economy has led to, among other things, several suspensions of trading on MICEX and RTS by market regulators since September 2008, a reduction in the disposable income of the general population, a crisis of bank liquidity, a significant devaluation of the ruble against the U.S. dollar and Euro, sharp decrease in industrial production and the rise of unemployment.

In addition, the Russian Federation has in the past limited the amount of export sales of crude oil by Russian producers by limiting the share of crude oil that may be transported for export and requiring them to sell a portion of the hard currency proceeds from exports. The Russian Federation also determined the amounts of crude oil for delivery for state needs and to certain customers, such as the military, agricultural concerns and remote regions, which, though in compliance with Russian law, may have been on non-market terms and may have taken priority over sales in the ordinary course of business. Actions such as these could adversely affect the demand for the Group's crude oil transportation services from the Group's customers, which could in turn have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Any future deterioration of the economic situation in the world at large or worsening of the economic situation in Russia specifically may impact the profitability of the Group's business. In addition, since Russia produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in mid-2008 and have since experienced significant decreases, particularly in the average price of crude oil, which decreased by approximately 53% in the first half of 2009, compared to the first half of 2008, only to recover by approximately 38.5% in the second half of 2009, compared to the first half of 2009, according to Bloomberg. A sustained decline in the price of crude oil, natural gas and other commodities could further disrupt the Russian economy. Any deterioration in the general economic conditions in Russia could adversely affect the Group's business, financial condition, prospects and results of operations.

Further, worsening economic conditions in Russia have led in the past, and could lead in the future, to social instability, labor and social unrest, high unemployment, and the failure of salaries and benefits generally to keep pace with the increasing cost of living. Such dislocations could have political, social and economic consequences that could have an adverse effect on confidence of international investors in Russia's political and social environment and the value of investments in Russia, including the value of the Notes. These factors may result in negative publicity regarding the Group's activities or disrupt the Group's ability to conduct its business effectively, which could have a material adverse effect on its business, financial condition, prospects and results of operations.

Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and for business activity

The Russian Federation does not have a long and well-established history of developing the legal framework required to support a market economy. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution. The Group's business is subject to federal laws and decrees, and orders and regulations issued by the Russian President, the Government, the federal ministries and the CBR, which are, in turn, complemented by regional and local rules and regulations.

Risks of the current Russian legal system include certain inconsistencies among federal, regional and local laws and regulations; limited judicial and administrative guidance on interpretations of Russian law; gaps in the regulatory structure due to the delay or absence of implementing legislation; limited judicial personnel with the ability to interpret new principles of Russian law, particularly business and corporate law; the possibility that certain judges may be susceptible to economic, political or nationalistic influences; a certain degree of discretion on the part of governmental authorities; and ongoing development of bankruptcy procedures. These risks, many of which do not exist to the same extent in countries with more developed market economies, could affect the Group's ability to enforce its legal rights in Russia or to defend against claims by others in Russia and could affect the ability of Noteholders to obtain effective redress in Russian courts.

Weaknesses in the Russian tax system could adversely affect the business of companies operating in Russia.

Russian companies are subject to a wide range of taxes, which include, among others, profit tax, value added tax, excise duties, corporate property tax and social duties. Russia's tax laws and regulations have been in force for a short period of time in comparison to tax laws in more developed market economies. Russia's tax laws and regulations historically were subject to frequent change and varying interpretations. Taxpayers and the tax authorities often hold differing opinions regarding such interpretation. In some instances, Russian tax authorities have applied new interpretations of tax laws retroactively. Furthermore, in the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Tax declarations together with related documentation are subject to review and investigation by a number of authorities, which have a statutory right to impose fines and penalties. Generally, tax declarations remain open and subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a year has been reviewed by the tax authorities does not prevent further review of that year, or any tax declaration applicable to that year, from further review during the three-year limitation period. A higher tax authority than that which carried out the initial audit may re-audit the same period. Therefore, previous tax audits do not preclude subsequent claims relating to the audited period. On July 14, 2005, the Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws and penalties and fines to be imposed if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, the amendments to the tax code, effective January 1, 2007, provide for the extension of the three-year statute of limitations if the actions of the taxpayer create insurmountable obstacles for the tax audit. Because the terms "obstructed," "hindered" and "insurmountable obstacles" are not specifically defined in Russian law, the tax authorities may attempt to seek tax adjustments and penalties beyond the three-year term. Therefore, the statute of limitations is not entirely effective.

Transfer pricing legislation in Russia allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs), sales and purchases, provided that the transaction price differs upwards or downwards from the market price by more than 20%. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (*i.e.*, if the price of such transactions differs from prices applied under similar transactions by more than 20% within a short period of time). Special transfer pricing rules apply to transactions with securities and derivatives. The transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by the tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by the tax authorities, the transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction. There is a plan to introduce substantial amendments to the transfer pricing legislation. Such amendments, if adopted, are expected to result in stricter transfer pricing rules. At this point it cannot be predicted when this law will be enacted, if at all, and what the provisions or effect on taxpayers, including the Group, may be.

By way of example, in its decision of July 26, 2001, the Constitutional Court introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for it. This concept is otherwise not defined in Russian tax law. Nonetheless, this concept has been used, for instance, by the tax authorities to deny the taxpayer its rights provided for in the law if the tax authorities can prove that the taxpayer was acting in bad faith. The tax authorities and courts may interpret this concept in a manner that is unfavorable to taxpayers.

In addition, on October 12, 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53, which introduced a concept of an "unjustified tax benefit" which is defined mainly by reference to specific examples of such tax benefits (for example, absence of business purpose) which may lead to disallowance of the application of that tax benefit. To date, there is little practice on interpretation of this new concept by the tax authorities or the courts, but it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of this Ruling was to combat the abuse of tax law, based on cases brought to courts to date relating to Ruling No. 53, the tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been intended by the Supreme Arbitration Court. To date, in the majority of cases where this concept has been applied, the courts have ruled in favor of taxpayers, but it is too early to determine whether the courts will follow these precedents in the future.

Over the past few years, the Group has been subject to claims for additional taxes based upon audits by the tax authorities. While the Group has generally been successful in defeating the positions of the tax authorities and upholding its own position through court appeals, there can be no assurance that the tax authorities will not sustain their position in respect of future assessments, resulting in liabilities for additional tax, which could be substantial.

Furthermore, the Russian tax legislation in effect does not contain a concept of corporate tax residency. The Russian Ministry of Finance has proposed the introduction into domestic tax law of a concept of tax residency for legal entities. According to the proposals, a company would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. No assurance can be currently given as to whether and when these amendments will be enacted, their exact nature, their potential interpretation by the tax authorities or their possible impact on the Issuer or Sovcomflot's other foreign subsidiaries. It cannot be ruled out that, as a result of the introduction of these changes to Russian tax legislation, the Issuer or Sovcomflot's other foreign subsidiaries might be deemed to become Russian tax residents, subject to all applicable Russian taxes with a possible impact on our business, financial condition, results of operations and prospects, and, therefore, the Issuer's ability to meet its obligations under the Notes and the Guarantors' ability to meet its obligations under the Guarantee. Additionally, if the Issuer is deemed to become a Russian tax resident or to have a permanent establishment in Russia, payments made by the Issuer under the Notes may become subject to Russian withholding tax, subject to available treaty relief, if any. See "Tax Considerations."

In addition to the usual tax burden imposed on Russian taxpayers, the above conditions complicate tax planning and related business decisions. Although management attempts to minimize the Group's tax exposure with effective tax planning, the introduction of new tax provisions may affect its overall tax efficiency and, consequently, result in additional taxes becoming payable. Furthermore, the uncertainty in Russian tax law enforcement practice could expose the Group to fines, penalties, interest charges and other enforcement measures despite the Group's best efforts at compliance.

Risks Relating to the Notes

The Issuer's ability to fulfill its obligations under the Notes is dependent on the Group.

The Issuer is an indirect wholly owned subsidiary of Sovcomflot and will use the net proceeds from the issuance of the Notes for the Group's general corporate purposes, including the repayment of existing indebtedness. The Issuer has insufficient net assets, other than amounts due to it from the Group in respect of any inter-Group loans, to meet its obligations to pay interest and other amounts payable in respect of the Notes. The Issuer would, therefore, in the absence of other funding sources, have to rely on the Group providing sufficient funds to meet such obligations.

The Group's assets are held in subsidiaries to which Noteholders have no direct recourse, and the Group has a significant amount of secured indebtedness in such subsidiaries.

Sovcomflot is a holding company, and Sovcomflot's subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. Under the terms of the Notes, Noteholders will have no direct recourse against the assets of such subsidiaries, nor to any of the sub-holding companies of such subsidiaries, such as Fiona, Intrigue or Marpetrol, who guarantee the obligations under the indebtedness of such subsidiaries. Furthermore, such subsidiaries have incurred significant indebtedness in order to finance their operating assets, and as a result, other creditors hold direct claims against such subsidiaries that will have a prior claim against such subsidiaries before the Noteholders. In the event of a bankruptcy, liquidation or reorganization of such a Group subsidiary, holders of that subsidiary's indebtedness and

trade and other creditors of that subsidiary will have a claim to the assets of the subsidiary, together with any guarantee provided by Fiona, Intrigue or Marpetrol, that is prior to the interest of Sovcomflot (to whom Noteholders will have recourse under the Notes) in those assets (except to the extent that the Group is recognized as a creditor of any such subsidiary through inter-Group claims or loans).

Moreover, the Notes are unsecured and therefore will rank behind any secured debt that the Group or its subsidiaries maintain or may incur, to the extent of the value realized of the assets securing the debt. In the event of a bankruptcy or similar proceeding involving Sovcomflot or a Group subsidiary, the assets that serve as collateral will be available to satisfy the obligations under any secured debt before any payments are made on the Notes. As of June 30, 2010, the Group's total outstanding secured indebtedness under its existing bank loans was US$ 2,567.4 million, secured by assets with a total carrying value of US$ 4,158.0 million.

In addition, the ability of the Group's subsidiaries to generate sufficient cash flow from operations or distribute funds or assets to allow the Group to make scheduled payments on its debt obligations, including guarantee payments with respect to the Notes, may be restricted by, among other things, restrictions under the Group's debt facilities, applicable corporate and limited liability company laws of the jurisdictions of the Group's subsidiaries' incorporation or organization, and other laws and regulations, and will also depend on their future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside the Group's control.

The Group has a significant amount of indebtedness that matures in 2013, which could have an adverse impact on the Group's ability to fulfill its obligations under the Notes and the Guarantee.

As of June 30, 2010, the Group's outstanding secured bank loans totaled US$ 2,567.4 million (including the current portion of US$ 161.3 million), with maturities ranging from 2010 to 2021. In particular, US$ 810.9 million of these bank loans (approximately 33% of the Group's outstanding secured bank loans as of June 30, 2010) are expected to mature in 2013. The Group's ability to make scheduled payments of interest and principal under its indebtedness, including the Notes, depends on, among other things, its future operating performance and its ability to refinance its debt. Each of these factors is, to a large extent, subject to economic, financial, competitive, regulatory, operational and other influences, many of which are beyond the control of the Group. The Group cannot make assurances that it will be able to repay or refinance all its loans upon maturity or that any such refinancings will be on favorable terms for the Group. If the Group is unable to refinance or repay its loans, or if the Group is required to refinance its loans on unfavorable terms, the Group's ability to pay interest and principal on the Notes may be impaired.

The Notes may not have an active trading market, which may have an adverse impact on the value of the Notes.

There may not be an existing market for the Notes at the time they are issued. Although it is expected that the Notes will be admitted to trading on the London Stock Exchange on or after the Closing Date, there may be little or no secondary market for the Notes. Even if a secondary market for the Notes develops, it may not provide significant liquidity, and it is expected that transaction costs in any secondary market would be high. As a result, the difference between bid and ask prices for the Notes in any secondary market could be substantial, and the value of the Notes could be adversely affected. There can be no assurance that a liquid market will develop for the Notes or that Noteholders will be able to sell their Notes, or that Noteholders will be able to sell their Notes for a price that reflects their value. Moreover, the Russian Federation has made public its plans to decrease its ownership in Sovcomflot by up to 25% minus one share, which could impact the Notes' credit ratings as well as their eligibility for certain broadly followed indices, which in turn could affect demand for the Notes in the secondary market.

The market price of the Notes may be volatile.

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's and its competitors' operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes or other securities and other factors. In addition, in recent years, the global financial markets have experienced significant price and volume fluctuations that, if repeated in the future, could adversely affect the price of the Notes without regard to the Group's business, financial condition, prospects or results of operations.

In particular, the markets for emerging market debt have been subject to disruptions on account of the global financial crisis that have caused substantial volatility in the prices of securities similar to the Notes. There can be no assurance that the market for the Notes will not be subject to similar disruptions. Any such disruptions may have an adverse effect on holders of the Notes.

The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited.

Except in limited circumstances, the Notes will be issued only in global form with interests therein held through the facilities of Euroclear, Clearstream, Luxembourg and DTC. Ownership of beneficial interests in the Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg and DTC or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear, Clearstream, Luxembourg and DTC can only act on behalf of their participants, which in turn act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear, Clearstream, Luxembourg or DTC systems may be impaired.

The Notes are subject to restrictions on transfer.

The Notes are being offered and sold in the United States in reliance on Rule 144A (the "**Rule 144A Offering**") to purchasers who are QIBs. The Notes also may be offered and sold outside the United States (the "**Regulation S Offering**") in reliance on Regulation S. Each purchaser of Notes pursuant to the Rule 144A Offering will be deemed to have represented to the Issuer that it is a QIB. Each purchaser of the Notes pursuant to the Regulation S Offering will be deemed to have represented to the Issuer that it is not a U.S. person within the meaning of Regulation S and is not acquiring Notes for the account or benefit of any U.S. person. See "Transfer Restrictions."

Payments required under the Guarantee may be subject to Russian withholding tax, and the Group can give no assurance that its obligation to pay additional amounts associated with any Russian withholding tax is enforceable under Russian law.

Payments under the Guarantee related to interest on the Notes are likely to be characterized as Russian source income. Accordingly, such payments should be subject to withholding tax in Russia at a rate of 30% in the event the payment is made to a Non-resident Noteholder who is an individual, or at a rate of 20% in the event that the payment under the Guarantee is made to a Non-resident Noteholder that is a legal entity or organization that is not organized under Russian laws and which holds and disposes of the Notes otherwise than through a permanent establishment in Russia, unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty. Additionally, because the law is unclear and the Russian tax authorities have never issued any guidance on the matter, there can be no assurance that such withholding tax would not be imposed upon the full payment under the Guarantee, including with respect to the principal amount of the Notes. See "Tax Considerations—Certain Tax Considerations in the Russian Federation."

If any payment required under the Guarantee is subject to withholding tax, the Group will be obliged to increase the amount payable under the Guarantee by the amount of withholding tax (except in circumstances specified in "Terms and Conditions of the Notes and the Guarantee—Redemption and Purchase—Redemption for tax reasons"). As a result, the Group could incur expenses well in excess of the amount due to the Noteholders. Management cannot be certain that the Group would have sufficient funds to make any payment required under the Guarantee or to pay the additional amounts associated with the withholding. Further, there can be no assurance that its obligation to pay the additional amounts associated with the withholding tax is enforceable under Russian law.

Tax might be withheld on dispositions of the Notes in Russia, reducing their value.

If a non-resident Noteholder that is a legal entity or organization, in each case not organized under Russian laws and that holds and disposes of the Notes otherwise than through a permanent establishment in Russia, sells Notes and receives proceeds from a source within Russia, there is a risk that the part of the

payment, if any, representing accrued interest may be subject to a 20% Russian withholding tax (even if a disposal is made at a loss) unless relief is available under an applicable double tax treaty.

Where proceeds from a sale, redemption or disposal of the Notes are received from a source within Russia by an individual non-resident Noteholder, a withholding tax would be charged at a rate of 30% on the gross proceeds from such disposal of the Notes less any available cost deduction (including the original purchase price) unless relief is available under an applicable double tax treaty.

The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See "Tax Considerations—Certain Tax Considerations in the Russian Federation."

Noteholders may not be adequately protected against corporate restructurings or highly leveraged transactions.

The terms of the Notes do not contain provisions that would afford Noteholders protection in the event of a decline in the Group's credit quality resulting from highly leveraged or other similar transactions in which the Group may engage. The Group is also not limited in the amount of other indebtedness or other liabilities that it may incur or securities that it may issue. Noteholders do not have the right to require the Group to repurchase or redeem the Notes in the event of many types of highly leveraged transactions.

Noteholders may face difficulties in enforcing their rights under Sovcomflot's Guarantee or the Notes.

Sovcomflot and most of its subsidiaries are incorporated outside the United States and the United Kingdom, and Noteholders do not have the right to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes, save for lodging a claim in any liquidation proceedings of the Issuer that are initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

Further, the enforceability of the Guarantee issued in connection with the Notes may be subject to numerous legal defenses, some of which could be based upon the structure utilized in this offering. See "Enforceability of Judgments."

The international nature of the Group's operations may make the outcome of any bankruptcy proceedings difficult to predict, and the special bankruptcy and insolvency regime applicable to Sovcomflot in the Russian Federation is generally more protective to the debtor compared to the regime governing the bankruptcy of ordinary business entities.

Sovcomflot is incorporated under the laws of the Russian Federation and the Group's subsidiaries are incorporated under the laws of the Russian Federation, England, Spain, Liberia, Cyprus and certain other countries, and the Group conducts operations in countries around the world. Consequently, in the event of any bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding involving Sovcomflot or any of its subsidiaries, bankruptcy laws of various jurisdictions could apply. This may make the outcome of any bankruptcy proceedings difficult to predict.

In addition, Sovcomflot is on the Russian Federation's list of strategic enterprises, which, among other things, sets out a special bankruptcy and insolvency regime applicable to Sovcomflot, which is generally more protective to the debtor compared to the regime governing the bankruptcy of ordinary business entities (see "Business Overview—Status as a Strategic Enterprise").

The Issuer is subject to risks relating to the location of its center of main interest ("COMI"), the appointment of examiners and the claims of preferred creditors under Irish law.

COMI

The Issuer has its registered office in Ireland. As a result, there is a rebuttable presumption that its COMI is in Ireland and consequently that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice (the "**ECJ**") in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of May 29, 2000 on Insolvency Proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which

is different from that which locating it at the registered office is deemed to reflect." As the Issuer has its registered office in Ireland, the majority of its directors are tax resident in Ireland, it is registered for tax in Ireland and has an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it is asked to make that decision. If the Issuer's COMI is not in Ireland, and is held to be in a different jurisdiction within the European Union, main insolvency proceedings may not be opened in Ireland.

Examinership

Examinership is a court procedure available under the Companies (Amendment) Act 1990, as amended to facilitate the survival of Irish companies in financial difficulties. The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances a negative pledge given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the High Court of Ireland (the "**High Court**") when a minimum of one class of creditors, whose interests are impaired under the proposals, has (i) voted in favor of the proposals and (ii) the High Court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and (iii) whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

If an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

- the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and
- a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular, under Irish law, the claims of unsecured creditors of the Issuer rank behind other creditors (including fees, costs and expenses of any examiner appointed, certain capital gains tax liabilities and claims of the Irish Revenue Commissioners for certain unpaid taxes).

USE OF PROCEEDS

Use of Proceeds

The gross proceeds from the offering of the Notes are expected to be US$ 800,000,000, before deducting commissions and expenses related to the offering, which are estimated to be approximately US$ 3 million. Management of the Group intends to use the net proceeds from the offering for general corporate purposes, including the repayment of existing secured indebtedness.

CAPITALIZATION

The following table shows the Group's capitalization as set forth in the unaudited consolidated financial statements for the Group as of and for the six-month period ended June 30, 2010 on an actual basis and as adjusted to reflect the proceeds of the issuance of the Notes. The figures in the column entitled "Adjustments" represent the anticipated gross proceeds from the issuance of the Notes. These figures have been prepared in a manner consistent with the Group's accounting practices. The figures in the column entitled "As adjusted" in the following table have been calculated as the sum of the corresponding figures in the two prior columns. The "As adjusted" column has been prepared for illustrative purposes only and because of its nature addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results. You should read this table together with the Group's financial statements and the notes to those financial statements included in this Prospectus, "Operating and Financial Review—Liquidity and Capital Resources," and "Terms and Conditions of the Notes and the Guarantee." There have been no material changes to the Group's capitalization since June 30, 2010.

	As of June 30, 2010	Adjustments	As adjusted[1]
	(in thousands of U.S. dollars)		
Current debt			
Secured bank loans	161,285	—	161,285
Finance lease liabilities	48,365	—	48,365
Total current debt	209,650	—	209,650
Non-current debt			
Secured bank loans	2,406,144	—	2,406,144
Finance lease liabilities	13,787	—	13,787
5.375% Senior Notes due 2017	—	800,000	800,000
Total non-current debt	2,419,931	800,000	3,219,931
Total debt	2,629,581	800,000	3,429,581
Equity			
Share capital	405,012	—	405,012
Reserves	2,504,146	—	2,504,146
Equity attributable to the owners of the parent	2,909,158	—	2,909,158
Non-controlling interest	203,226	—	203,226
Total equity	3,112,384	—	3,112,384
Total capitalization	5,741,965	800,000	6,541,965

(1) The table above excludes the impact of two new term loans entered into by the Group after June 30, 2010 for an aggregate amount of US$ 116 million. The table above also excludes the impact of a sale and lease-back transaction completed by the Group on September 7, 2010 in the amount of US$ 115 million. See "Operating and Financial Review—Liquidity and Capital Resources—Borrowings."

The information and data contained in this prospectus relating to the international shipping industry that have been provided by, and are attributed to, CRSL are taken from CRSL's database and other sources. CRSL has advised that: (a) some information in CRSL's database is derived from estimates or subjective judgments; (b) the information in the databases of other maritime data collection agencies may differ from the information in CRSL's database; (c) while CRSL has taken reasonable care in the compilation of the statistical and graphical information and believes it to be accurate and correct, data compilation is subject to limited audit and validation procedures.

The global shipping industry provides a crucial worldwide connection between nations and regions through reliable, cost-effective international trade, and the industry has facilitated the expansion of economic globalization and interdependence for centuries. The shipping industry incorporates the transportation of any unitized seaborne cargo, which may include a broad range of wet and dry bulk products, such as coal, iron ore, grain, crude oil or its refined products, liquefied gases, containerized finished goods, automobiles and livestock. While the scope of cargo is diverse, the key benefit of the shipping industry has been its ability to provide efficient transportation services that are technically and economically advantageous relative to alternative modes of transportation by land or air.

The Group is engaged principally in providing seaborne transportation services to the global energy industry, encompassing the following sectors: crude oil shipping, oil products shipping, chemical shipping, LNG shipping, LPG shipping, asphalt/bitumen shipping and dry bulk shipping with an emphasis on the seaborne carriage of coal. In addition to these sectors, the Group provides infrastructure and logistical services to the energy industry through its terminal operations services, its shuttle tanker operations, its floating storage and offloading unit activities, its tugs and its multi-purpose dry cargo vessels.

The freight and hire rates in the international shipping industry are determined and influenced by a variety of supply and demand factors, and, while there is significant overlap between the sectors in which the Group operates, each sector has its own unique supply and demand drivers and underlying supply and demand fundamentals. Generally, management of the Group believes the primary determinants for freight and hire rates in the sectors in which the Group operates include: (1) the demand for cargo to be transported, (2) the supply of appropriate vessels that are available to ship specified cargoes, (3) seasonality in the demand for cargo transportation services, particularly within hydrocarbon industries, (4) international relations between nation states and (5) short-term influences, such as those caused by weather patterns.

This section should be read in conjunction with the description of the Group's business and activities in each of these sectors contained in "Business."

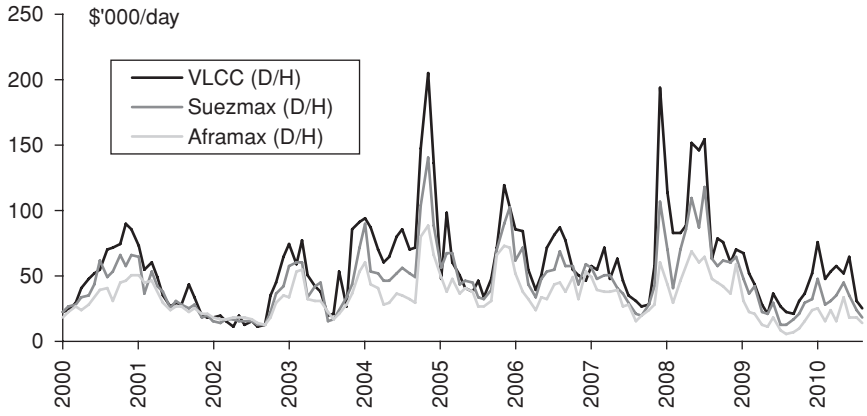
Crude Oil Shipping

Introduction

Crude oil tankers transport crude oil or, where capable, certain refined crude oil products between oil production locations or reservoirs and oil consumption locations, typically in refineries or storage facilities. Customers in this sector include integrated oil companies, specialized oil companies, oil traders, refineries, government agencies and storage facility operators. Crude oil transportation is contracted predominantly in the form of spot charters, time charters or contracts of affreightment. The pricing of crude oil transportation occurs in a highly competitive global charter market for tankers and is conducted between the vessel owners or operators and the parties contracting for the carriage of cargo, typically known as charterers. The contracting in this sector can occur either directly between charterers and vessel operators or through the use of market intermediaries. Freight and hire rates for crude oil shipping vessels trading under spot charters are very sensitive to oil production trends as well as the demand for and supply of tankers, and rates are consequently volatile and tend to be somewhat seasonal. The following chart and

table set forth the global average spot time-charter equivalent earnings for VLCC, Suezmax and Aframax vessels in this sector over the last ten years:

Historical Nominal Tanker Spot Earnings (Modern Vessels)



Note: Average time-charter equivalent earnings are calculated by CRSL using the assumptions for VLCC, Suezmax and Aframax tankers described in *Shipping Intelligence Weekly*. Data to August 2010. There is no guarantee that current rates are sustainable and rates may increase or decrease significantly over short periods of time. Source: Clarkson Research, September 2010.

	Historical Crude Tanker Rates (Nominal)			
	Average Spot Rates (TCE)		One Year Timecharter	
US$/day	Suezmax	Aframax	Suezmax	Aframax
2009	27,096	15,760	30,502	20,042
2010 (YTD)	33,135	20,460	28,969	18,902
Aug-2010	18,796	14,465	31,750	19,000
5 Year Avg	49,372	34,611	39,818	29,326
5 Year Peak	117,643	72,733	55,625	43,500
5 Year Trough	12,113	5,754	24,000	17,000
10 Year Avg	46,492	34,544	36,148	27,266
10 Year Peak	140,516	87,863	58,750	43,500
10 Year Trough	12,113	5,754	18,000	15,938

Source: CRSL, September 2010.

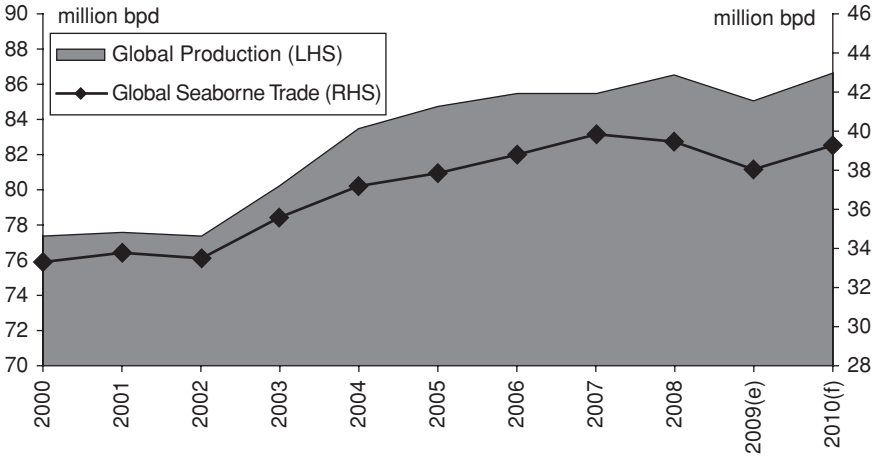
Note (1): Data to August 2010. There is no guarantee that current rates are sustainable and rates may increase or decrease significantly over short periods of time.
Note (2): Average spot rates are calculated by CRSL using the assumptions for Suezmax and Aframax tankers described in Shipping Intelligence Weekly.
Note (3): 5 year figures are based on September 2005 to August 2010 end-month data. 10 year figures are based on September 2000 to August 2010 end-month data. Basis: monthly observations.

Demand

The demand for crude oil transportation services is driven by a combination of factors, including the global supply and demand for oil and the location and accessibility of oil production supplies relative to the principal locations for discharging such oil. The measure of demand for crude oil shipping services is commonly expressed in "ton-miles," which is the product of the volume of crude oil (in metric tons) to be transported in seagoing vessels and the distance over which such crude oil is to be transported. Macroeconomic forces, both globally and regionally, have a significant impact upon world oil consumption and, consequently, upon the volume of oil to be transported by sea. Moreover, the average distance that oil transported by sea travels is primarily affected by seaborne trading and distribution patterns, which are influenced by the location of oil production, as well as the optimum distribution of such oil into refineries and other distribution channels. As a result, seaborne trading patterns heavily influence the ton-mile dynamic of crude oil shipping demand, and such patterns are in turn determined by a combination of economic and geographic considerations, seasonal variations, environmental influences, exceptional climatic conditions, geopolitical events, competition from alternative energy sources and the development of new regions of crude oil production. According to Fearnresearch, the ton-mile demand of crude oil is

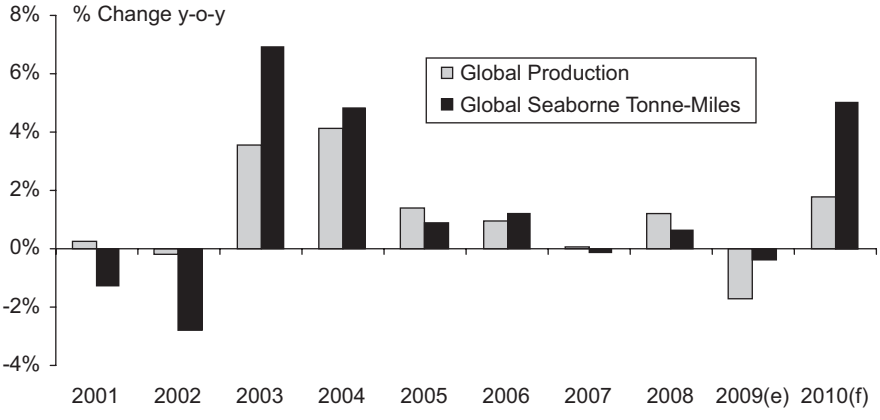
estimated to have grown at a compound annual growth rate of 1.5% between 2000 and 2010, compared with an estimated compound annual growth rate in the volume of oil produced of 1.1% over the same period. The following charts illustrate the development of global seaborne movements of crude oil over the last ten years:

Global Crude Oil Production and Seaborne Trade



Source: Clarkson Research, September 2010.

Global Crude Oil Production and Seaborne Trade Growth



Source: Fearnresearch/IEA, September 2010.

Supply

The global supply of crude oil tankers increases as newbuildings are delivered into the world fleet and decreases with the removal of older vessels by demolition or otherwise. Vessels can also be removed from the world fleet as a result of casualties or the conversion of vessels to alternative uses, such as dry bulk carriers or FSOs or floating production, storage and offloading units ("**FPSOs**"). The short-term supply of such vessels is also affected by other factors, such as the temporary decommissioning of vessels from cargo service ("**laying-up**"), the number of vessels engaged in storage contracts, awaiting repairs or drydocked.

Permanent removal of a vessel from the world fleet can take place within a relatively short time frame, typically within three months. The construction of a newbuilding crude oil tanker, however, typically requires between 18 months and three years from contract signing to delivery of the vessel by the shipyard, depending on the schedule of the relevant shipyard's order-book. Converting crude oil tankers to alternative uses, such as the transportation of "clean" oil products, usually requires approximately 12 months.

The global crude oil shipping fleet is generally divided into three main vessel types that are distinguished principally by vessel size and carrying capacity. These main types are:

- Very large crude carriers ("**VLCC**"): These vessels are generally between 200,000 DWT and 320,000 DWT in size and have carrying capacities of approximately two million barrels or more of crude oil. Vessels in excess of 320,000 DWT are commonly referred to as Ultra Large Crude Carriers. According to CRSL, VLCCs carry approximately 50% of the global volume of crude oil transported by sea, and these vessels principally operate on long-haul voyages where the economies of scale of these vessels provide the charterer with the lowest transportation costs per barrel of oil. Port and terminal size and other geographical factors, such as channel depth and air draft limitations, restrict the range of places where VLCCs may trade, with the principal VLCC routes being from the Middle East to Asia, Europe, and the United States, as well as from West Africa and the Caribbean to Asia. It is common for VLCCs to carry exclusively crude oil, though occasionally storage or trade specific contracts are undertaken for refined products.
- Suezmax tankers: These vessels are generally between 120,000 DWT and 199,999 DWT in size and have carrying capacities of approximately one million barrels of crude oil. Suezmax tankers are utilized on medium- and long-haul voyages where economies of scale provide the charterer with lower transportation costs per barrel of crude oil and where geographical or other restrictions prevent the use of VLCCs. The principal Suezmax routes are from West Africa to the United States, the Caribbean, Europe and India, from the Black Sea to the Mediterranean, intra-Mediterranean voyages and from the Middle East to Southeast Asia and China. Suezmax vessels predominantly carry crude oil, though specific voyage and storage contracts for refined products have become more common in recent years. By definition, Suezmax tankers are of the largest size and draft able to transit the Suez Canal fully loaded.
- Aframax tankers: These vessels are generally between 80,000 DWT and 119,999 DWT in size and have carrying capacities of between 600,000 and 750,000 barrels of crude oil. Aframax tankers are utilized on medium- and short-haul voyages to serve ports and other locations that are unable to accommodate larger vessels. The principal Aframax routes are from the Baltic Sea, North Sea and Black Sea to Europe, intra-Mediterranean voyages, from the Caribbean and Mexico to the United States, from Indonesia to Asia and Australasia, from the Middle East to Africa, India, Southeast Asia and China and from the Russian Far East to Asia and the West coast of the United States. In addition to crude oil, Aframax tankers often transport refined oil products, principally for long-haul contracts from the Atlantic to Asia, from Asia and the Middle East to the Atlantic and for specific storage contracts. Generally, Aframax tankers that transport both crude oil and refined oil products are restricted to carrying "dirty" refined products, such as fuel oil, vacuum gas oil, carbon black feedstock and low sulfur waxy residue. However, certain Aframax tankers are purpose built for carrying "clean" refined oil products and have their cargo tanks coated to facilitate cleaning and to meet the petroleum industry's strict criteria on possible contamination between cargoes. These purpose built Aframax tankers are termed as Long Range Product Tanker Size 2 ("**LR2**") vessels. Although these vessels can carry crude oil or "dirty" refined oil products, they typically carry "clean" refined oil products exclusively, and their primary use has been the transportation of naphtha from the Middle East to Japan. Aframax tankers are named after the Average Freight Rate

Assessment tanker rate system developed by Shell Oil in 1954. They are the largest ship under that classification system.

	World Tanker Fleet By Vessel Size (above 5,000 DWT)							
		Fleet						
Class	Size (DWT)	Number	m. DWT	Average Age (Years)	% Double Hull (by DWT)	% Single Hull (by DWT)	% DS/DB (by DWT)	% DH fleet 20 years + (by DWT)
ULCC/VLCC	200,000 & above	547	165.1	8.1	90.6%	9.0%	0.4%	0.0%
Suezmax	120,000-199,999	409	62.6	8.4	94.9%	3.2%	1.9%	1.6%
Aframax (Uncoated)	80,000-119,999	651	68.7	8.4	95.2%	2.8%	2.0%	0.6%
Total Crude	**80,000 & above**	**1,607**	**296.4**	**8.3**	**92.6%**	**6.3%**	**1.1%**	**0.5%**
Aframax (Coated)	80,000-119,999	218	22.9	7.6	95.7%	2.0%	2.3%	6.3%
Panamax	60,000-79,999	392	28.0	7.1	93.6%	3.7%	2.7%	3.0%
Handymax/MR2	45,000-59,999	902	43.4	5.9	96.5%	1.3%	2.1%	1.9%
Handysize/MR1	25,000-44,999	1,030	37.4	11.6	83.5%	8.7%	7.8%	7.8%
Total Products	**25,000-119,999**	**2,542**	**131.7**	**8.5**	**92.1%**	**4.1%**	**3.9%**	**4.6%**
SR/Chemical	10,000-24,999	1,267	19.6	9.3	83.9%	9.1%	7.0%	3.4%
Small	5,000-9,999	1,405	9.8	13.8	69.5%	14.8%	15.8%	4.0%
Total	**5,000 & above**	**6,821**	**457.5**	**9.7**	**91.6%**	**6.0%**	**2.5%**	**1.9%**

Source: CRSL, September 2010.

Note (1): Includes all tankers above 5,000 DWT only.
Note (2): DS/DB = Double Sided/Double Bottomed; D/H = Double Hull.
Note (3): The product tanker fleet includes approximately 5.5 million DWT of stainless steel capacity.

	World Tanker Orderbook By Vessel Size (above 5,000 DWT)									
		Orderbook				% of Fleet On Order for Delivery (by DWT)				
Class	Size (DWT)	Number	m. DWT	% of Total Orderbook	% of Total Fleet	2010	2011	2012	2013+	Total
ULCC/VLCC	200,000 & above	192	60.1	47%	36%	5%	18%	9%	4%	36%
Suezmax	120,000-199,999	154	24.1	19%	39%	5%	15%	12%	6%	39%
Aframax (Uncoated)	80,000-119,999	109	11.9	9%	17%	4%	8%	3%	1%	17%
Total Crude	**80,000 & above**	**455**	**96.1**	**75%**	**32%**	**5%**	**15%**	**8%**	**4%**	**32%**
Aframax (Coated)	80,000-119,999	30	3.3	3%	14%	1%	9%	3%	1%	14%
Panamax	60,000-79,999	86	6.3	5%	23%	3%	13%	2%	4%	23%
Handymax	45,000-59,999	270	13.2	10%	30%	10%	14%	5%	1%	30%
Handymax	25,000-44,999	135	4.4	3%	12%	4%	5%	2%	1%	12%
Total Products	**25,000-119,999**	**521**	**27.2**	**21%**	**21%**	**5%**	**11%**	**3%**	**1%**	**21%**
Handysize	10,000-24,999	238	3.8	3%	19%	9%	8%	2%	0%	19%
Small	5,000-9,999	270	1.9	1%	19%	13%	5%	1%	0%	19%
Total	**5,000 & above**	**1,484**	**129.0**	**100%**	**28%**	**6%**	**13%**	**6%**	**3%**	**28%**

Source: CRSL, September 2010.

Note: Includes all tankers, including coated vessels.

Industry Trends

The following trends have shaped the crude oil shipping industry, and management of the Group expects them to continue to shape the industry in the coming years by affecting the supply and demand, as well as the freight and hire rates for crude oil shipping vessels.

- Increasing world crude oil consumption. The EIA forecasts that world crude oil consumption will increase by an average of 1.6% per year from 2010 to 2025. The EIA expects the growing world population and continued industrialization of global economies, particularly in Brazil, Russia, India and China, to account for a significant portion of this increased demand.
- Growth of the seaborne oil trade. According to the IEA, growth in world oil consumption is expected to occur in countries and regions that are not located near oil pipelines or local crude oil production sources, or where local production is unlikely to be sufficient to meet demand, either currently or in the future. As a result of increased demand in such countries or regions, it is probable that demand for tanker capacity will increase in terms of both the volume of crude oil

transported and the average distance traveled per ton of crude oil, which is expected to have a positive effect on demand in terms of ton-miles.

- Increased standards for vessel specification and operation. In recent years, charterers have begun to impose strict criteria on the quality of vessels used to transport seaborne oil, as well as operating and manning standards. Moreover, industry governance rules, such as those promulgated by the IMO, set guidelines for the phasing out of single hull vessels carrying crude oil, while European and U.S. legislative and regulatory bodies are continually in the process of implementing stricter criteria on the emissions from vessel engines (see "Regulatory Overview—Environmental regulation—U.S. regulations" and "Regulatory Overview—Environmental regulations—other environmental initiatives"). These developing governmental requirements and charterer criteria have tended to have an adverse effect on older and less efficient vessels. Management of the Group believes that these trends could restrict the supply of vessels available to charterers in the future as older vessels are removed from service, requiring vessel owners and operators to maintain more modern fleets.
- Current overcapacity of tankers. According to CRSL, 455 crude oil tankers were on order as of September 2010, and vessels equivalent to approximately 28% of the world's crude oil tanker fleet is expected to be delivered by the end of 2012. Despite this expected growth, regulatory pressures have led to an increase in the mandatory scrapping of older tankers, and partially as a result of the global financial crisis, many newbuilding orders have been cancelled by vessel operators, limiting additions of vessels to the global tanker fleet. Despite these factors, management of the Group expects a certain level of tanker overcapacity to continue through 2012, which could continue to impact charter rates negatively (see "Risk Factors—Risks Relating to the Group's Industry—Overcapacity in the tanker industry may continue or increase in the future").

Oil Products Shipping

Introduction

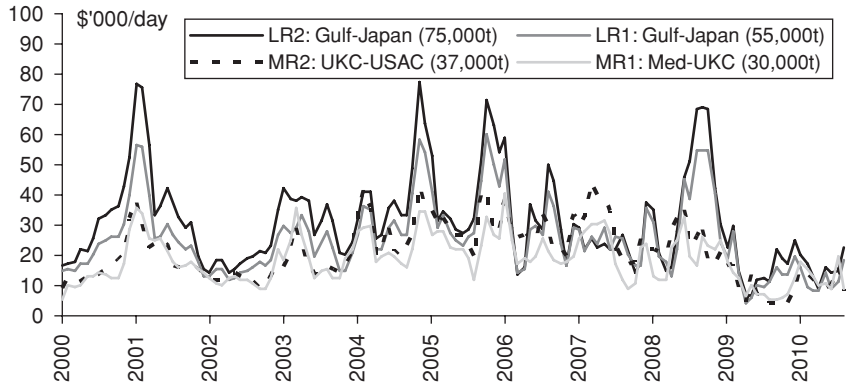
Oil products tankers are able to transport a variety of liquids, but the construction of the cargo tanks and piping systems onboard these vessels makes them most suitable for carrying refined crude oil products. In particular, purpose-built oil products tankers have specially coated tanks that facilitate cleaning of their tanks to prevent cargo contamination. Oil products tankers generally transport oil products from refineries or storage facilities to places of consumption or to other storage facilities for onward transportation by land or pipeline. Charterers include integrated oil companies, specialized refiners, oil traders, end consumers, government agencies and storage facility operators. The oil products that are transported are varied, and each oil product has its own particular properties and requirements for being transported by vessels. In general, oil products can be divided into two categories. "Dirty" or "black" products, such as fuel oil, vacuum gas oil and carbon black feedstock require heating to lower the viscosity of the cargo during transport, but dirty products require minimal tank or line preparation as contamination of the oil product is not a crucial consideration. However, "clean" oil products, such as gasoline, diesel, naphtha and jet fuel have varying standards for the cleanliness of a vessel's tanks and lines, as these products are very sensitive to contamination.

Oil products transportation is contracted predominantly in the form of spot charters, time charters or contracts of affreightment, similar to crude oil transportation contracts. The pricing of oil products transportation occurs in a highly competitive global charter market for tankers and is conducted between the vessel owners or operators and the charterers. The contracting in this sector can occur either directly between charterers and vessel operators or through the use of market intermediaries.

Freight and hire rates for oil products vessels trading under spot charters are very sensitive to the fluctuating demand for and supply of tankers, and rates are consequently volatile. Rates are also strongly affected by seasonal fluctuations in demand from end consumers, such as the U.S. summer gasoline demand season and the U.S. winter heating oil season. The following chart and table set forth the average

spot time-charter equivalent earnings for LR2, LR1, MR2 and MR1 product tanker vessels in this sector over the last ten years:

Historical Nominal Clean Product Spot Earnings (Modern Vessels)



Note: Average time-charter equivalent earnings are calculated by CRSL using the assumptions for product tankers described in Shipping Intelligence Weekly. Data to August 2010. There is no guarantee that current rates are sustainable and rates may increase or decrease significantly over short periods of time. Source: Clarkson Research, September 2010.

Historical Product Tanker Rates (Nominal)

	Average Spot Rates (TCE)				One Year Timecharter Rates		
US$/day	**LR2: Gulf-Japan (75,000t)**	**LR1: Gulf-Japan (55,000t)**	**MR2: UKC-USAC (37,000t)**	**MR1: Med-UKC (30,000t)**	**Products (70,000 DWT D/H)**	**Products (45-47,000 DWT D/H)**	**Products (36,000 DWT D/H)**
2009	16,644	13,740	8,392	9,351	19,304	15,181	13,652
2010 (YTD) . .	15,908	11,891	11,651	13,154	16,756	13,178	11,219
Aug-2010 . . .	22,447	18,329	8,047	8,956	17,500	13,500	12,750
5 Year Avg . .	28,779	25,080	21,747	18,414	26,215	21,999	19,952
5 Year Peak . .	71,548	60,002	43,973	40,636	34,000	30,500	27,250
5 Year Trough .	6,614	4,285	3,455	5,236	15,875	12,000	10,000
10 Year Avg . .	31,426	25,978	21,662	19,075	24,084	19,794	17,996
10 Year Peak .	77,471	60,002	43,973	40,636	37,100	30,500	27,250
10 Year Trough	6,614	4,285	3,455	5,236	15,750	12,000	10,000

Source: CRSL, September 2010.

Note (1): Data to August 2010. There is no guarantee that current rates are sustainable and rates may increase or decrease significantly over short periods of time.
Note (2): Average spot rates are calculated by CRSL using the assumptions for product tankers described in Shipping Intelligence Weekly.
Note (3): 5 year figures are based on September 2005 to August 2010 end-month data. 10 year figures are based on September 2000 to August 2010 end-month data. Basis: monthly observations.

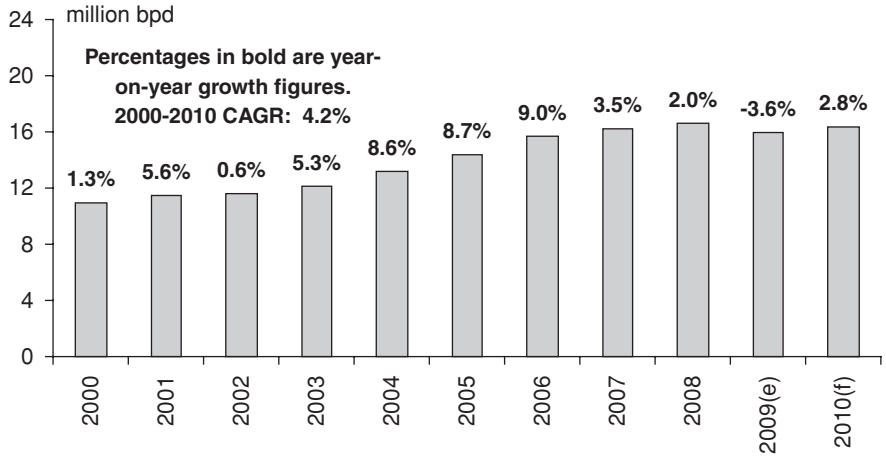
Demand

The demand for oil products transportation services is driven by a combination of factors, including the global supply and demand for oil products and the location and accessibility of oil products supplies relative to the principal locations for discharging such oil products. Macroeconomic forces, both globally and regionally, have a significant impact upon world oil products consumption and, consequently, upon the volume of oil products to be transported by sea. In addition, the average travel distance of oil products transported by sea is primarily affected by seaborne trading and distribution patterns, which are influenced by the locations where oil products are refined, as well as the optimum distribution of such oil into other refineries and distribution channels. As a result, seaborne trading patterns heavily influence the ton-mile dynamic of oil products shipping demand, and such patterns are in turn determined by a combination of economic and geographic considerations, seasonal variations, environmental influences, exceptional climatic conditions and geopolitical events. In particular, seasonal and exceptional weather, ambient temperature cycles and geological events significantly affect the demand for certain oil products.

Recently, countries and regions that have historically only produced and exported crude oil have constructed refining facilities to extract greater revenues from the crude oil value chain and for other structural, economic and strategic reasons. As a result of this shift, oil products are increasingly transported over greater distances by sea after being refined, which has increased demand for oil products shipping both in terms of volumes and distance. According to Fearnresearch, the ton-mile demand of oil

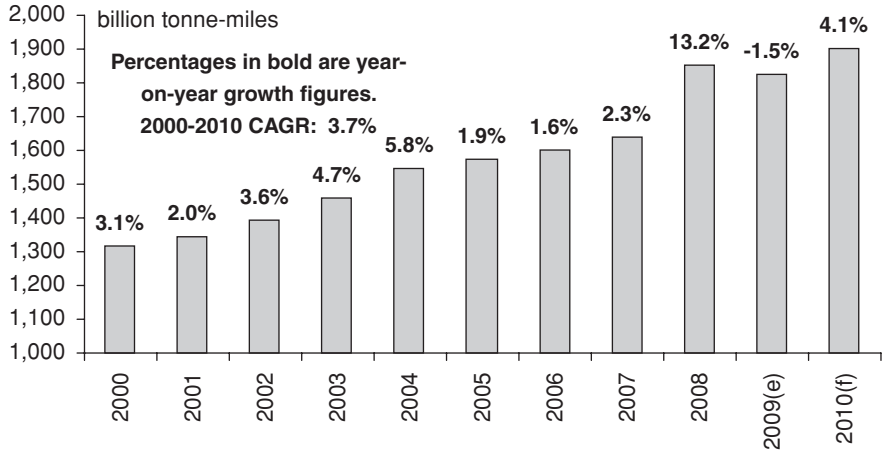
products is estimated to have grown at a compound annual growth rate of 3.7% between 2000 and 2010, compared with an estimated compound annual growth rate in the volume of oil produced of 1.1% over the same period. The following charts illustrate the development of global seaborne movements of oil products over the last ten years:

Global Oil Products Seaborne Trade (Tonnes)



Source: Clarkson Research, September 2010.

Global Oil Products Seaborne Trade (Tonne-Miles)



Source: Fearnresearch, September 2010.

Supply

The global supply of oil products tankers increases as a result of the construction and delivery of newbuildings to the world fleet and decreases as a result of the removal of older vessels by demolition or otherwise. Vessels can also be removed from the world fleet as a result of vessel loss. The short-term supply of such vessels is also affected by other factors, such as the temporary laying-up of vessels, as well as the number of vessels engaged in storage contracts, awaiting repairs or drydocked. Further, although oil products tankers are capable of transporting crude oil, dirty oil products and clean oil products, the transportation of dirty products or crude oil requires significant cleaning operations, which can decrease the number of ships immediately available to carry clean refined products.

Permanent removal of a vessel from the world fleet can take place within a relatively short time frame, typically within three months. The construction of a newbuilding oil products tanker, however, typically requires between 18 months and three years from contract signing to delivery of the vessel by the shipyard, depending on the schedule of the relevant shipyard's order-book.

The global oil products shipping fleet is generally divided into four main vessel types that are distinguished principally by vessel size and carrying capacity. These main types are:

- Long range product tankers 2 ("**LR2**"): These vessels are generally between 95,000 DWT and 120,000 DWT in size and have cubic carrying capacities of approximately 75,000 metric tons of naphtha. Historically, LR2s were primarily used to carry naphtha from the Middle East to Japan. In recent years, with the expansion of refinery capacity in the Middle East, India and other oil producing regions, the Group has noticed greater trade route diversity for LR2s. Currently, LR2s are typically used to provide economies of scale for the movement of "clean" oil products from regions East of the Suez canal to destinations in the Atlantic, although this trade pattern is subject to reversal, depending on the pricing of the relevant oil products. Port and terminal size, and other geographical factors can restrict the locations where LR2 vessels may trade. Moreover, LR2s typically carry exclusively clean oil products due in part to the high cleanliness standards required to transport clean oil products, which make it uneconomical to switch regularly between clean and dirty or crude trading. There are no restrictions for LR2s to transport crude oil or dirty oil products, and some LR2s are engaged in these trades for a variety of reasons.
- Long range product tankers 1 ("**LR1**"): These vessels are generally between 60,000 DWT and 94,999 DWT in size and have cubic carrying capacities of approximately 55,000 metric tons of naphtha. LR1 tankers are utilized on medium- and long-haul voyages to transport both clean and dirty oil products where economies of scale provide charterers lower transportation costs but where geographic or other restrictions prevent the use of LR2s. Any switching between transport of clean oil products and dirty oil products occurs irregularly due to the costs of preparing the vessel's tanks and lines for clean products after carrying dirty products. The principal trade routes for LR1s are from Europe to the West Atlantic, especially the United States, and from the Middle East and India to Asia and Europe.
- Medium range product tankers 2 ("**MR2**"): These vessels are generally between 45,000 DWT and 59,999 DWT in size and have cubic carrying capacities of approximately 37,000 metric tons of gasoline and gas oil. MR2 tankers are utilized on short-, medium- and long-haul voyages transporting either clean or dirty oil products. With the correct classification, certain MR2s also transport bio-liquids, such as palm and cereal oils. The dimensions of MR2 vessels, as well as the construction of their tanks and lines, provide significant trading flexibility in terms of the number and types of ports to which the vessels can call and in terms of the broad range of cargoes that they are capable of transporting. The principal trade routes for MR2 vessels are from Europe to the West Atlantic, from Europe to West Africa, from the Gulf of Mexico to the East and West coasts of the United States, from South America to Southeast Asia and the East coast of the United States, from South America to Europe, intra-Asia voyages and from the Middle East to the Indian Ocean and Asia.
- Medium range product tankers 1 ("**MR1**"): These vessels are generally between 25,000 DWT and 44,999 DWT in size and have cubic carrying capacities of approximately 22,000-30,000 metric tons of gasoline. MR1 tankers are utilized on short- and medium-haul voyages transporting both clean and dirty oil products. With the correct classification, certain MR1s also transport bio-liquids, such as palm and cereal oils. The dimensions of MR1 vessels, as well as the construction of their tanks and lines, provide significant trading flexibility in terms of the number and types of ports to which the vessels can call and in terms of the broad range of cargoes that they are capable of transporting. The principal trade routes for MR1 vessels are intra-region, such as within Northern Europe, the Baltic region, the Mediterranean Sea, the Black Sea, Asia, the Caribbean, the Middle East and the Indian Ocean.

Industry Trends

The following trends have shaped the oil products shipping industry, and management of the Group expects them to continue to shape the industry in the coming years by affecting the supply, demand and the freight and hire rates for oil products shipping vessels.

- Increasing world oil products consumption. The EIA forecasts that world oil consumption will increase by a compound annual growth rate of 0.9% per year from 2007 to 2035. The EIA expects the growing world population and continued industrialization of global economies, particularly in Brazil, Russia, India and China, to account for a significant portion of this increase in demand.

Moreover, according to EIA, greater automobile ownership, air travel, heating and air conditioning units per household are expected to increase the demand for oil products.

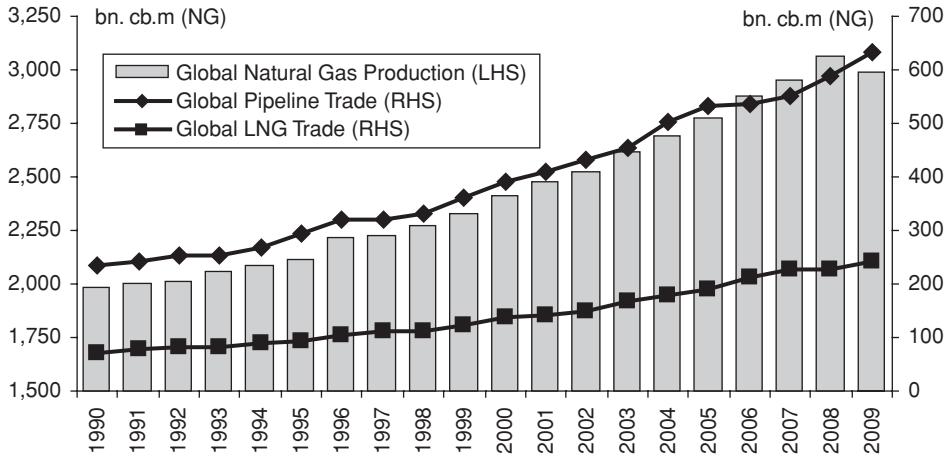
- Increased standards for vessel specification and operation. In recent years, charterers have begun to impose strict criteria on the quality of vessels used to transport seaborne oil products, as well as on the standards of operation and manning of those vessels. Moreover, Annex 1 of the International Convention for the Prevention of Pollution From Ships ("**MARPOL 73/78**"), as subsequently amended, set a global timetable for the accelerated phase out of single hull tankers, while European and U.S. legislative and regulatory bodies are continually in the process of implementing stricter criteria on the emissions from vessel engines (see "Regulatory Overview—Environmental regulation—U.S. regulations" and "Regulatory Overview—Environmental regulations—other environmental initiatives"). These developing governmental requirements and charterer criteria have tended to have an adverse effect on older and less efficient vessels. Management of the Group believes that these trends could restrict the supply of vessels available to charterers in the future as older vessels are removed from service, requiring vessel owners and operators to maintain more modern fleets.
- Shifting of refinery capacity to oil producing countries and regions. Over the past decade, oil refining companies have experienced declining margins in their businesses that are operated in the principal oil consuming nations of the Organization for Economic Cooperation and Development. As a result, many of the major international oil companies have elected to divest their refinery assets due to poor economic performance, as well as due to the cost, including upkeep or shutdown costs, of aging refinery facilities in areas such as the United States and Europe. In contrast, oil producing countries view refining as a potential future profit source. As a result, many traditional oil producing countries have begun to invest heavily in the construction of refining facilities in the Middle East, North Africa, the Russian Federation, Nigeria and India. Management of the Group expects this shift to increase the demand for transportation services of oil products, both in terms of the volume of product to be transported and in the longer distances such products will travel.

LNG Shipping

Introduction

LNG carriers are highly specialized vessels for the transportation of LNG at a loaded temperature of minus 163 degrees Celsius, which reduces the commodity from its natural gaseous state to a liquefied state representing 1/600th of its gaseous volume. According to the BP Statistical Review of World Energy (June 2010), natural gas accounted for approximately 24% of world energy consumption in 2009 and, after oil and coal, represents the third largest known global energy source. In a similar fashion to crude oil reserves, natural gas reserves are very unevenly distributed. Despite this, production and consumption have historically been relatively closely aligned, limiting the need for long distance trading. In recent years, however, LNG has increasingly become commoditized and is now traded around the world. The majority of natural gas (approximately 72% of consumption in 2009) is still produced and consumed within the same country. Where a need for trade exists, this has largely been served via gas pipelines. However, the level of local reserves with proximity to demand have been depleted in recent years, and political and security concerns over long pipelines crossing multiple international borders have led to a rapid growth in natural gas traded as LNG. Between 2000 and 2009, the global trade of LNG increased at a compound annual growth rate of 6.6% per year, compared to a compound annual growth rate of 5.6% per year for gas traded by pipeline.

Natural Gas Production and Trade



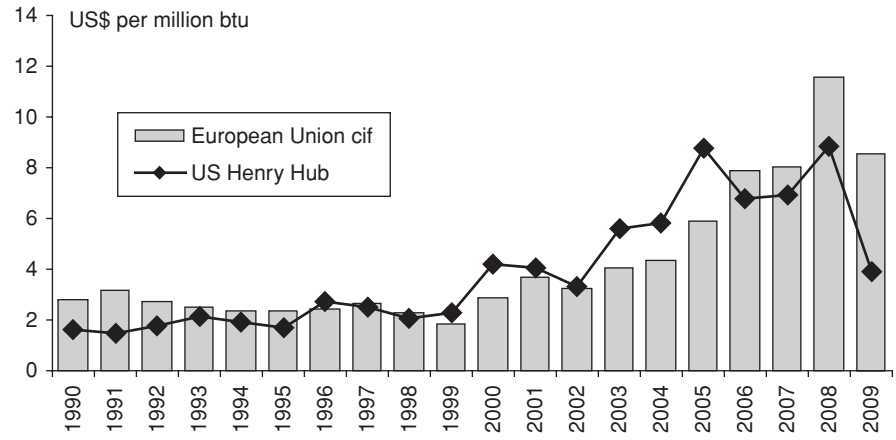
Source: BP Statistical Review of World Energy, June 2010

LNG is used principally in the generation of power and electricity and is consumed either by specific consumers or is entered into a gas distribution pipeline network. The LNG industry has been categorized historically by high capital costs resulting from the development of production facilities, discharge facilities and vessels capable of transporting LNG. All three components of these high capital costs have historically been inextricably linked to each other, providing an integrated project capable of producing, liquefying, transporting, receiving and regasifying the natural gas over the lifetime of a particular plant. As a result, LNG shipping is generally categorized by time charters of long duration that perform dedicated transport services to either the production or receiving facilities.

Demand

The demand for LNG transportation services is driven by a combination of factors, including the global supply and demand for LNG and the location and accessibility of LNG relative to the principal locations for discharging LNG. Macroeconomic forces, both globally and regionally, have a significant impact upon world LNG consumption and, consequently, upon the volume of LNG to be transported by sea. Moreover, the average travel distance of LNG transported by sea is primarily affected by seaborne trading and distribution patterns, which are influenced by the locations of LNG production, as well as the optimum distribution of such LNG into distribution channels. As a result, seaborne trading patterns heavily influence the ton-mile dynamic of LNG shipping demand, and such patterns are in turn determined by a combination of economic and geographic considerations, seasonal variations, environmental influences, exceptional climatic conditions and geopolitical events. In particular, seasonal and exceptional weather, ambient temperature cycles and geological events significantly affect the demand for LNG. Moreover, the demand for LNG is generally closely linked to the direct demands of retail consumers and is more sensitive to changes in the prices of alternative energy sources, such as coal, hydro, nuclear, petroleum and natural gas transported by pipeline.

Natural Gas Prices



Source: BP Statistical Review of World Energy, June 2010

Supply

The global supply of LNG carriers increases as a result of the construction and delivery of newbuildings to the world fleet and decreases with the removal of older vessels by demolition or otherwise. The short-term supply of such vessels is also affected by other factors, such as the temporary laying-up of vessels, as well as the number of vessels engaged in storage contracts, awaiting repairs, drydocked.

Permanent removal of a vessel from the world fleet can take place within a relatively short time frame, typically within three months. The construction of a newbuilding LNG carrier, however, typically requires between 18 months and three years from contract signing to delivery of the vessel by the shipyard, depending on the schedule of the relevant shipyard's order-book. The number of shipyards that are capable and willing to construct LNG carriers is limited, and during periods of intense contract ordering, the ability to construct an LNG carrier within a near-term time frame can become restricted.

The global LNG carrier fleet is generally divided into vessel types that are distinguished principally by vessel size and containment system. These main types are:

- Vessels with carrying capacity between 100,000 and 175,000 cubic meters. These vessels account for approximately 77% of the world fleet based on vessel numbers as of September 1, 2010, according to CRSL. Older generation vessels typically have a cubic carrying capacity close to 120,000 cubic meters, and the younger vessels typically have higher carrying capacity of approximately 138,000 cubic meters or more. These vessels, although often designed for specific load and discharge facilities, are generally capable of calling at most LNG facilities worldwide.
- Vessels with carrying capacity less than 100,000 cubic meters. These vessels tend to be facility-specific vessels or older generation LNG carriers that are dedicated to short voyages, such as intra-Mediterranean, or to servicing specific ports that cannot accommodate larger vessels.
- Q-Flex and Q-Max Vessels. These vessels were designed and purpose-built for Qatari export LNG projects between 2007 and 2010 with the intention of trading between Qatar, on the one hand, and the United States and the United Kingdom, on the other. These vessels are designed to maximize the economies of scale over the intended long-haul voyages. Other discharge facilities in Korea, Japan and Europe are making structural changes to their receiving facilities to enable the berthing

and discharge of these vessels. These vessels are driven by regular diesel engines with an on-board reliquifaction plant to recycle the natural boil off from the LNG cargo back into the cargo tanks.

World LNG Fleet and Orderbook By Vessel Size

Size (cb.m)	Fleet		% share of cb.m	Average Age (Years)	% Over 20 Years	Orderbook		
	Number	m. cb.m				No.	m. cb.m	% of fleet
175,000 & above	45	10.3	20.4%	1.6	0%	2	0.4	3.4%
100,000-174,999	273	38.6	76.3%	9.6	15%	22	3.5	9.2%
< 100,000	36	1.6	3.3%	20.6	58%	4	0.0	2.7%
Total	354	50.5	100.0%	9.7	13%	28	3.9	7.8%

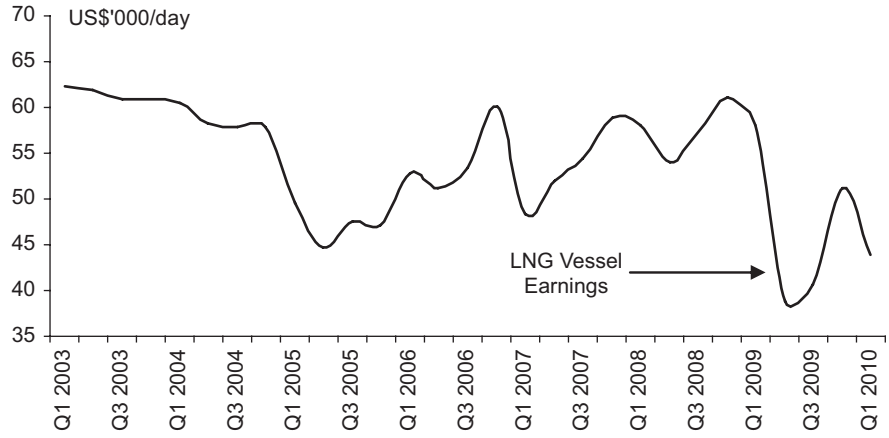
Source: CRSL, September 2010.

Industry Trends

The following trends have shaped the LNG shipping industry, and management of the Group expects them to continue to shape the industry in the coming years by affecting the supply, demand and the freight and hire rates for LNG carriers.

- Increasing world LNG production. The EIA forecasts that natural gas consumption will increase by a compound annual growth rate of 1.3% per year from 2007 to 2035 and that world LNG production will grow at a compound annual growth rate of 1.4% over the same period. The EIA expects the growing world population and continued industrialization of global economies to account for a significant portion of this increase in demand. Moreover, new LNG production in Qatar, Trinidad, Egypt, the Russian Federation, Nigeria, Yemen and Peru provide geographic diversity for sourcing LNG that permits cost competition and reduces the consumer's reliance on pipeline source natural gas from a restricted number of third party nations.
- Large reserves of natural gas. According to the BP Statistical Review of World Energy (June 2010), proved natural gas reserves were approximately 187.5 trillion cubic meters at the end of 2009, with a far better reserves-to-production ratio than crude oil.
- Natural gas as premium energy resource to alternatives. Natural gas is cheaper to produce energy from than crude oil. Natural gas has cleaner emissions than coal and does not have the same upfront and retirement costs as nuclear electricity generation. Furthermore, natural gas remains more economically viable than renewable energy sources and can provide greater consistency of energy production than hydro energy.
- Emergence of the LNG spot market. The nascent LNG spot market and the ability to transport natural gas in vessels is expected to provide the natural gas industry with a resource of greater flexibility that can respond more quickly to immediate or seasonal demand changes for energy generation than had been available when natural gas was transported through pipelines or dedicated LNG transport chains. The impact for shipping will be the creation of a greater diversity in the range of loading and discharging facilities used by LNG carriers, which is expected to increase the demand, in terms of ton-miles, for the transportation of LNG by sea.

LNG Quarterly Timecharter Equivalent Earnings



Source: Clarkson Research, September 2010

Shuttle Tankers

Shuttle tankers are specialized vessels designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries, and are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from offshore oil field installations. Shuttle tankers, which were developed as an alternative to pipelines, operate primarily from offshore oil fields located in deep water and are dedicated in their employment to servicing either one or a collection of geographically proximate oil field installations. Shuttle tankers are typically chartered under time charters or contracts of affreightment for long periods or for the life of the relevant oil field.

Shuttle tankers are significantly different from conventional crude oil tankers, since they are primarily used in regions with harsher climates that require robust maneuvering capabilities, the ability to operate independently in all weather conditions, sophisticated bow loading systems and specialized crews. The workload for the crew onboard and for shore-based personnel for offshore operations is higher for shuttle tankers compared to conventional shipping, given the shorter voyage lengths and the additional complexity of offshore loading operations. Maneuvering and the safe handling of shuttle tankers in close proximity to offshore installations, operating the loading and dynamic positioning systems and complying with additional offshore regulations and practices require highly skilled crew. Tailor-made training, including extensive simulator training, is an integral part of the shuttle tanker business. In addition to the normal maritime certificates for deck officers, a shuttle tanker dynamic positioning operator must qualify for a dedicated dynamic positioning certificate.

Shuttle tankers form an integrated part of an offshore field development project and a critical part of the logistics chain of such a field. As a result, cooperation between the shuttle tanker operator and the field operator is necessarily much closer than in the case of the conventional tanker business, and there are usually long-term contractual arrangements between the field operator and the shuttle tanker owner to lift the production volume from an offshore oil field installation.

Distribution of Shuttle Tankers

Region/Country	Active
North Sea	**31**
Norway	11
United Kingdom	8
Russia Arctic	3
Netherlands	3
Denmark	3
Germany	1
Poland	1
France	1
Brazil	**14**
North America	**9**
Canada	6
US GoM	3
Asia/Pacific	**6**
China	2
Other Asia/Pacific	4
Russia/Far East	**2**
Mediterranean	**2**
West & South Africa	**2**
Total	**66**

Source: CRSL, July 2010.

Based on last reported location.

Chemical Shipping

Seaborne trade in chemicals is influenced by changes in global industrial production activities that consume such chemicals. The global chemical tanker industry is generally broken down into four principal categories. The first is organic chemicals, which is the largest category accounting for nearly half of the seaborne chemicals transportation market. The other categories are vegetable oils, inorganic chemicals and animal fats. Chemical tankers also transport miscellaneous cargo, such as molasses, lubricants, methyl, tertiary butyl and ether. Chemical tankers may also carry refined petroleum products, but charterers tend to pay a premium to specialized vessels, primarily due to tank cleanliness considerations. Chemical tankers generally range in size from below 5,000 DWT to approximately 30,000 DWT.

Asphalt/Bitumen Shipping

A significant portion of worldwide bitumen consumption is used for the construction of road or pavement covering, with the balance used in other associated construction projects, such as asphalt roofing. The United States and Europe have historically been the largest consumers of asphalt/bitumen worldwide, but in recent years there has been an increase in demand for asphalt/bitumen from India and China. Seaborne bitumen is carried in drums and/or poly bags, or in bulk in specialized bitumen tankers that can maintain the viscosity of the bitumen through heating. The world fleet is principally engaged on long-term charter contracts or contracts of affreightment to producers or consumers, including most of the oil majors, and there is no effective spot market for asphalt/bitumen shipping.

Dry Bulk Shipping

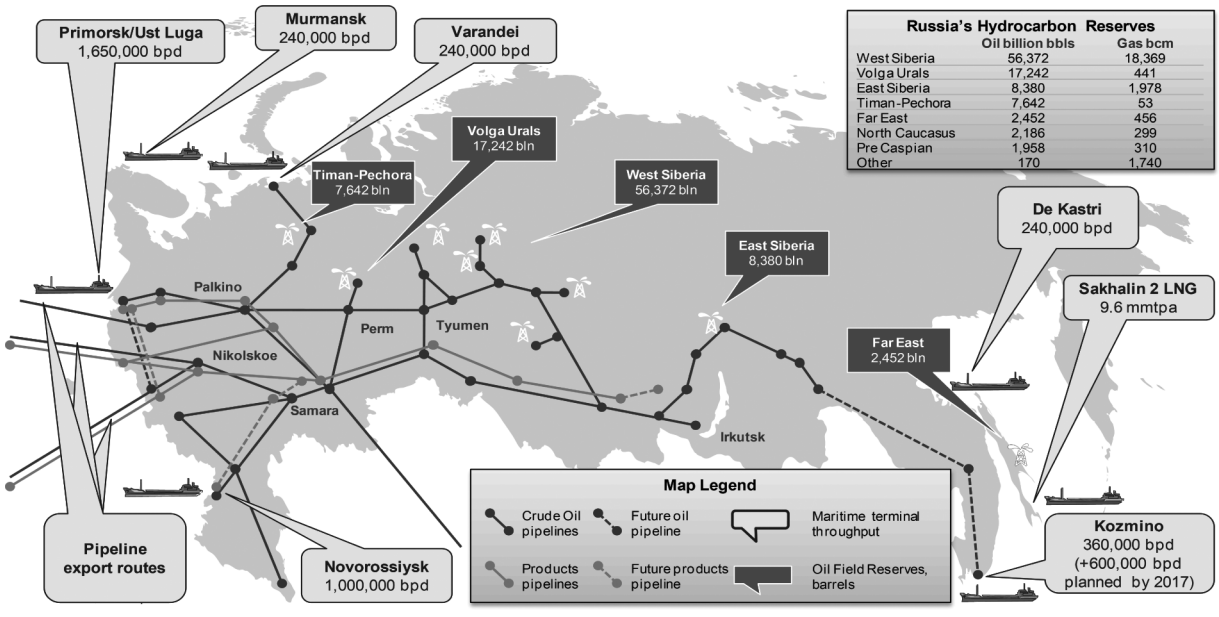
Dry bulk cargo is used in many basic industries and in construction and can be divided into major bulk commodities and minor bulk commodities. Major bulk commodities include iron ore, coal, grain, bauxite/alumina and phosphate rock. Minor bulk commodities cover a wide variety of commodities that are typically transported in smaller quantities, such as forest products, iron and steel products, fertilizers, agricultural products, non-ferrous ores, minerals and petroleum coke, cement, other construction materials and salt. Dry bulk cargo is shipped in large quantities and can be easily stowed in a single hold with little

risk of cargo damage. Transportation of major and minor bulks requires different carrier types, and the bulk carrier fleet is generally divided into four major vessel types based on carrying capacity: Capesize, Panamax, Handymax and Handysize. The Group's involvement in this sector comprises the development and support of the export of coal from the Russian Federation on its vessels.

The Russian Oil and Gas Sector

According to Wood Mackenzie, the oil and gas industry provides over 20% of Russia's GDP and accounts for approximately 50% of the revenues of the Russian Federation. Given its strategic importance, the Russian Federation takes an active role in managing the oil and gas industry, and it owns majority stakes in the largest players, Rosneft and Gazprom, as well as the bulk of the pipeline and shipping infrastructure, including its shareholding in the Group. The Russian Federation is committed to maintaining Russia's pivotal role in the global oil and gas industry and has ambitious long-term production targets of 10.7 million barrels of oil per day ("**b/d**") and 900 billion cubic meters of natural gas by 2030 according to Wood Mackenzie. In addition, the Group is the largest shipping company in Russia based on DWT, according to industry sources. Given this position and Sovcomflot's status as a strategic enterprise of the Russian Federation, management believes the Group is well positioned to benefit from the potential growth in the Russian oil and gas sector.

The map below illustrates the various regions where Russian oil and gas production sites or reserves are located:



Russia's Hydrocarbon Reserves

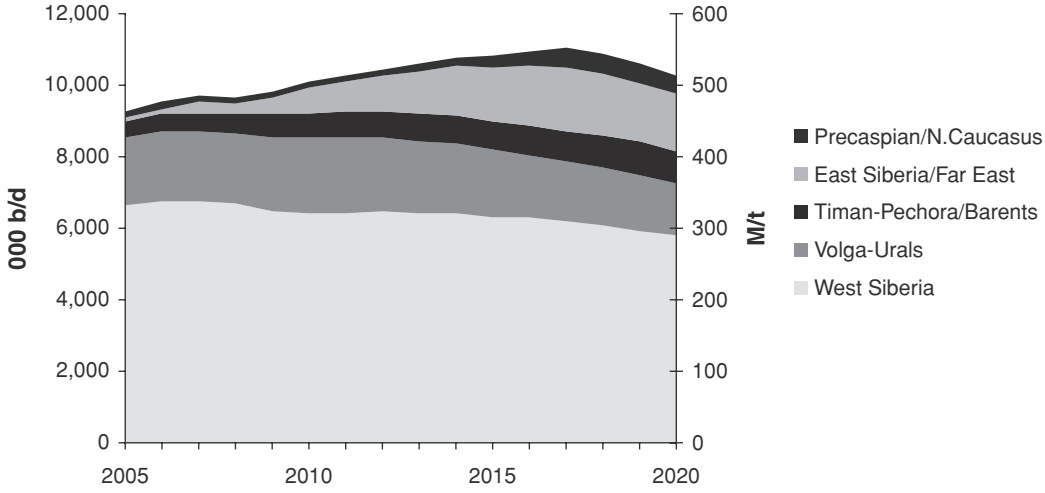
	Oil billion bbls	Gas bcm
West Siberia	56,372	18,369
Volga Urals	17,242	441
East Siberia	8,380	1,978
Timan-Pechora	7,642	53
Far East	2,452	456
North Caucasus	2,186	299
Pre Caspian	1,958	310
Other	170	1,740

The largest oil producer in the world

According to Wood Mackenzie, Russia holds almost 100 billion barrels of commercial oil reserves, second only to Saudi Arabia. 60% of these reserves are in the West Siberia region, which is now mature. However, commercial reserves in frontier areas such as East Siberia, the Far East and the Arctic offshore are beginning to be exploited and offer longer-term potential. The offshore Arctic is considered to be one of the world's last remaining untapped oil and gas provinces and is estimated to have the potential to increase Russian oil and gas reserves by over 20%.

According to the IEA, Russia was the world's largest oil producer in 2009, averaging over 10.2 million b/d, and the IEA expects oil production to remain stable at over 10 million b/d for the next decade. Over two-thirds of total production is from the West Siberia region and, despite its maturity, this region is expected to account for the majority of production in the medium-term. Production from greenfield developments in new regions such as East Siberia and the Far East will offset decline in production from Russia's more traditional oil regions.

Production of Russian Crude Oil by Region



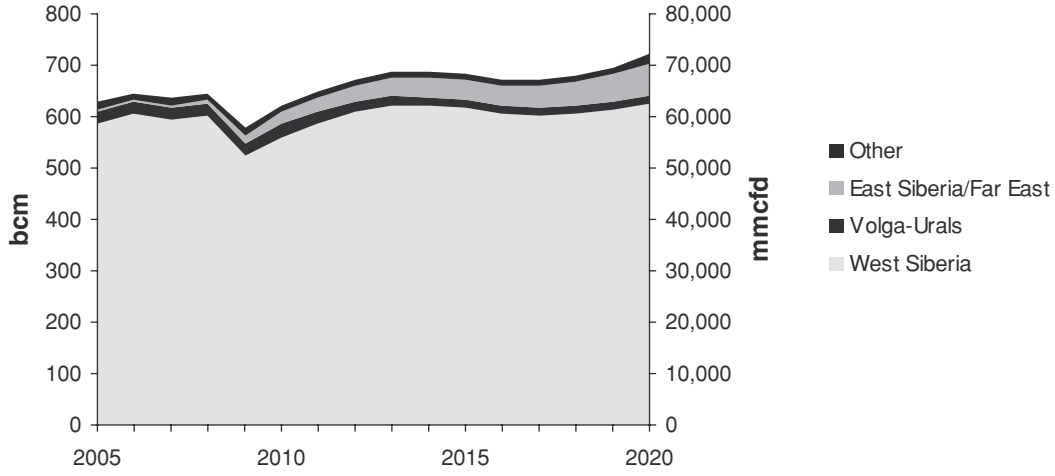
Russia exports significant volumes of crude oil. In 2009, crude oil exports amounted to almost 5 million b/d, according to Wood Mackenzie. Around 50% of this was via Baltic and Black Sea ports such as Primorsk and Novorossiysk. The diversification of supply routes is a key goal of the Russian Federation, with specific emphasis on the east given its relative proximity to the fast-growing Asian region. The first stage of the East Siberian Pacific Ocean ("**ESPO**") pipeline was commissioned in late 2009. The pipeline transports crude oil from greenfield developments in East Siberia to the Kozmino Bay export terminal on the Pacific coast. The ESPO is expected to transport 360,000 b/d by the end of 2010, growing to around 1.3 million b/d in 2017, according to Wood Mackenzie.

The world's largest natural gas reserves

According to BP Statistical Review of World Energy (June 2010), Russia boasts an estimated 44 trillion cubic meters of commercial remaining natural gas reserves, the largest in the world. This vastly exceeds its nearest rivals, the United States and Qatar. Over 75% of Russia's natural gas is located in West Siberia. However, as is the case for crude oil, new production regions will begin to play an increasingly important role in the future of natural gas production. Frontier regions such as East Siberia and the Arctic offshore are considered to be highly prospective and offer potential reserves upside.

Russian natural gas production fell in 2009 as a result of the financial crisis and a subsequent drop in European and domestic demand. Production has recovered in 2010, and Russia is currently the world's second largest natural gas producer, behind the United States, according to Wood Mackenzie. Production is expected to recover to its pre-crisis level by 2012 and to grow over the next decade and beyond to almost 800 billion cubic meters per year, according to Wood Mackenzie. Historically, the bulk of Russian natural gas production has come from the giant West Siberian fields, including the prolific Medvezhye, Urengoiskoye and Yamburgskoye fields. Longer-term growth is expected to come from the Yamal Peninsula and will begin with development of the super-giant Bovanenkovskoye field.

Production of Russian Natural Gas by Region



Gas export diversification is also a key strategic goal of the Russian Federation. Gazprom is currently constructing the Nord Stream pipeline, which will transport gas through the Baltic Sea. A South Stream is also planned, through the Black Sea. Both routes will reduce Russia's reliance on European transit states. Negotiations with China are also ongoing over a new gas corridor from Eastern Russia to China.

A key goal for Russia and Gazprom is entry into the global LNG market, which would allow Russian gas to be shipped to new markets, including the markets of the Asia Pacific region. Russia's Far East contains the country's only operational LNG facility, at Sakhalin-2. The project has a capacity of 9.6 million metric tons per annum from two trains and exports LNG to both Asian and U.S. markets. Further LNG projects are being evaluated, which would allow exports from the Yamal Peninsula (South Tambeiskoye) and the Barents Sea's Shtokmanovskoye field. An LNG project has also been mooted at Vladivostok, on Russia's Pacific coast.

BUSINESS

Overview

The Group is the largest shipping company in Russia and a leading provider of seaborne energy transportation services worldwide. The Group operates one of the largest and most modern tanker fleets in the world according to CRSL, and its core business is the worldwide seaborne transportation of crude oil and oil products for the world's leading oil and gas companies, with a particular focus on exporting Russian hydrocarbons. The Group specializes in the operation of ice-class vessels, which are designed to operate in and withstand harsh weather and ice conditions, primarily in the Baltic, Arctic and Far Eastern regions of Russia. According to CRSL, the Group is the largest owner of ice-class tankers in the world, based on DWT capacity as of October 1, 2010. As of June 30, 2010, the Group's fleet consisted of 144 owned and chartered-in vessels with a total capacity of approximately 10.5 million DWT, including 45 ice-class vessels (32.8% of the Group's fleet), and the Group had 10 offices worldwide. In 2009, the Group generated time-charter equivalent revenues of US$ 932.3 million and Adjusted EBITDA of US$ 550.0 million. For the six months ended June 30, 2010, the Group generated time-charter equivalent revenues of US$ 496.5 million and Adjusted EBITDA of US$ 292.6 million.

Sovcomflot is currently wholly owned by the Russian Federation and, in 2009, was included on the Russian Federation's list of strategic enterprises and organizations that share a privileged legal status under certain Russian laws (See "—Status as a Strategic Enterprise"). Given Sovcomflot's status as a state-owned shipping company and a strategic asset of the Russian Federation, the Group has a critical role in the development of Russia's energy sector, both as the leading energy shipping group in Russia and as an integral part of the Russian infrastructure for developing, transporting and exporting Russian hydrocarbons. Management considers the Group's operations to be, in effect, a seaborne extension of the Transneft pipeline infrastructure, which positions the Group to benefit from anticipated growth in Russian hydrocarbon exports. According to the IEA, Russia is currently the largest crude oil producing country in the world and possesses the world's largest natural gas reserves according to BP Statistical Review (see "Industry Overview—The Russian Oil and Gas Sector"). Management believes that the Group's reputation and position in the Russian market will continue to allow the Group to carry a significant portion of these oil and gas reserves that are exported by sea.

Since 2005, the Group has expanded significantly through organic fleet growth, acquisitions and contributions to its charter capital from a midsize tanker company to a global leader in energy shipping, providing complex marine logistical solutions. Since 2005, the Group's fleet has more than tripled in DWT capacity and gross revenue and, as of June 30, 2010, the Group had 11 additional newbuildings under construction, nine of which are expected for delivery before the end of 2010, and two in early 2011. A significant portion of this growth resulted from the acquisition, in December 2007, of an effective 66.5% interest (subsequently increased to an effective 86.8% interest) in Novoship from the Russian Federation (See "—History and Development"). The rationale for this consolidation was to create a fully integrated Russian shipping company that could compete effectively in both Russian and international shipping markets with a large, high quality and modern fleet equipped with the latest technology to enable the provision of a broad range of services required by its customers. Since 2007, the Group has significantly broadened the range and capabilities of its vessels and services by entering new market segments in the energy industry, such as the transportation of LNG and LPG; owning and operating shuttle tankers and supply vessels to and from offshore exploration, production and transshipment facilities; and owning and operating tugs, all with a focus on providing services in the harsh weather and icy operating conditions in the Baltic, Arctic and Far Eastern regions of Russia. Management of the Group believes that this operational expertise should place the Group in a leading position to expand the range of transport and logistics services that it provides to its clients both in Russia and internationally.

The Group's customers include major Russian oil and gas companies, such as Gazprom, Lukoil, Rosneft and TNK-BP; major international oil companies, such as BP, Chevron, ConocoPhillips, ExxonMobil, Shell and Total; and other international oil and gas companies, such as Petrochina, Repsol and Statoil. Management of the Group believes that customers partner with the Group for logistically complex projects due to the Group's extensive operating capabilities, diverse service offerings, high quality fleet, reputation for first-class customer service and financial stability.

The Group actively manages its vessel employment mix with a strong focus on deriving a significant portion of revenue from fixed-rate time charters. Management considers the Group's fleet deployment to be well balanced, with 58.8% of its revenue for the year ended December 31, 2009 from fixed-rate time charters (50.2% for the six months ended June 30, 2010) and 41.2% of its revenue for the year ended

December 31, 2009 from spot charters and contracts of affreightment (49.8% for the six months ended June 30, 2010). As of June 30, 2010, the Group had total contracted future revenues of US$ 4.7 billion, including US$ 2.8 billion under contracts whose remaining terms exceeded five years in duration. Management of the Group believes that this vessel employment mix provides stable revenues and operating cash flows, as well as flexibility in scheduling the deployment of its vessels.

The Group's operations are organized into five business segments:

- *Crude oil transportation.* This segment transports mainly crude oil for the Group's customers worldwide. In 2009, this segment generated US$ 431.4 million (approximately 46.3%) of the Group's time-charter equivalent revenues. As of June 30, 2010, the Group's fleet in this segment consisted of 56 crude oil carriers (including four chartered-in vessels), representing a total capacity of approximately 7.0 million DWT.
- *Oil products transportation.* This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. In 2009, this segment generated US$ 324.1 million (approximately 34.8%) of the Group's time-charter equivalent revenues. As of June 30, 2010, the Group's fleet in this segment consisted of 36 petroleum product carriers (including one chartered-in vessel), 23 chemical and oil carriers and three asphalt and bitumen carriers, representing a total capacity of approximately 2.6 million DWT.
- *Gas transportation.* This segment primarily transports LNG and LPG. In 2009, this segment generated US$ 77.4 million (approximately 8.3%) of the Group's time-charter equivalent revenues. As of June 30, 2010, this segment's fleet consisted of six LNG carriers, four of which are jointly owned with third parties, and two LPG carriers, representing a total capacity of 453,000 DWT.
- *Offshore development services.* This segment contains the Group's shuttle tankers and specialized supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously. This segment also provides additional services to offshore development facilities, such as logistical support and the management of FSOs. In 2009, this segment generated US$ 81.3 million (approximately 8.7%) of the Group's time-charter equivalent revenues. As of June 30, 2010, this segment's fleet consisted of six shuttle tankers with a total capacity of approximately 485,000 DWT, as well as one ice breaking platform supply vessel.
- *Coal transportation and ancillary marine services.* This segment operates bulk cargo carriers, primarily for the transportation of coal, and provides a variety of logistical services to terminal operators, such as the operation of tug vessels, the management of onshore oil terminals and the provision of technical services to the Group's and third-party vessels. In 2009, this segment generated US$ 18.2 million (approximately 2.0%) of the Group's time-charter equivalent revenues. As of June 30, 2010, this segment's fleet consisted of four dry cargo carriers with a total capacity of approximately 98,000 DWT, as well as seven tugs.

Sovcomflot is an open joint stock company organized under the laws of the Russian Federation, including Federal Law No. 208-FZ "On Joint Stock Companies," dated December 26, 1995, as amended, with the main state registration number 1027739028712, and was originally incorporated in 1988. Sovcomflot's registered office is located at 3, Lit. A, Moika River Embankment, Saint-Petersburg, 191186, Russian Federation and the telephone number of its registered office is +7 (812) 363 11 01.

Key Competitive Strengths

Management believes that the Group has a number of competitive strengths that have enabled it to expand significantly over the last several years and that these strengths, including those summarized below, will continue to provide it with competitive advantages in the future.

Global leader across market segments

The Group is a diversified seaborne energy transportation company that provides services to its customers in different market segments around the world, and the Group is a leader in each of the market segments in which it operates. The Group is the largest shipping company in Russia and, according to CRSL, the Group was the largest tanker owner in the world based on number of vessels in its fleet and the sixth largest tanker owner in the world based on DWT capacity as of September 1, 2010. According to

CRSL, the Group is the largest owner of ice-class tankers as of October 1, 2010, the second largest owner of Aframax tankers and the fourth largest owner of Suezmax tankers in the world, based on DWT capacity as of September 1, 2010. The Group is also among the largest owners and operators worldwide of MR product carriers and is the largest operator worldwide of Arctic shuttle tankers. Management believes the Group's positions as a market leader in these segments enhances its reputation, which, together with the scale, diversity and quality of the Group's operations, provides it with further opportunities to retain and increase its market positions.

Moreover, the Group is one of the largest operators of LNG carriers worldwide, the largest Russian operator of LNG carriers and the largest ice-class LNG operator worldwide based on number of vessels as of September 1, 2010 according to CRSL. The Group is the only Russian company experienced in operating and overseeing the construction of LNG carriers and, as a result, management believes the Group is well positioned to maintain and increase its market share of the LNG transportation market from key Russian gas exploration and development projects.

Modern and diverse fleet enabling a broad product offering

The Group operates one of the youngest and most modern fleets in the world among major tanker operators with a weighted average age of 5.9 years as of June 30, 2010, compared to a weighted average fleet age of approximately 10 years for the world cargo fleet over 5,000 DWT, according to CRSL. In addition, all of the Group's tankers are double-hulled. Management of the Group believes that operating a modern fleet of double-hulled tankers gives the Group an important competitive advantage relative to other operators, particularly in view of increasingly stringent regulatory, port and customer requirements. Younger fleets are more energy efficient and can meet the Group's environmental standards without requiring major overhauls, which decreases the Group's expenditures on ship repairs as well as reducing off-hire periods for repairs, which increases the Group's fleet utilization. In addition, major oil companies are under increasing pressure to rely exclusively on double-hulled tankers, even before operators are required to modernize their fleets under environmental regulations. As a result, such customers may be more inclined to use the services of an operator, such as the Group, whose fleet consists of younger, exclusively double-hulled vessels.

In addition, the Group's fleet includes traditional and ice-class crude oil, oil products, LNG and LPG carriers, specialized shuttle tankers and supply vessels and other vessels that provide ancillary marine services. Onboard this diverse group of vessels, the Group develops and implements innovative technologies to increase the safety of its operations and living standards for crew, increase the energy efficiency of its vessels, seek to comply with existing and prospective environmental standards and reduce the operating and maintenance costs of its vessels. Examples of such innovations include redundant hull coatings to protect the underwater portion of the vessel's hulls, low sulfur fuel supply systems, ballast water treatment systems, systems for monitoring and controlling the vessels' energy consumption and comprehensive "winterization" packages, which are designed to make vessel operation and crew living as safe and efficient as possible in the extremely harsh icy-water conditions of the Baltic, Arctic and Far Eastern regions of Russia. Management believes that the diversity of the Group's fleet, combined with its broad technological expertise enables the Group to offer to customers a comprehensive range of tailored and high-quality energy transportation services, including ship-based transportation, terminal management and other marine logistics services.

Well positioned to serve large Russian energy export market

Russia holds the second largest oil reserves in the world according to Wood Mackenzie, and the largest natural gas reserves in the world according to BP Statistical Review. In addition, the Russian Federation is committed to maintaining its pivotal role in the global oil and gas industry and has ambitious long-term production targets of 10.7 million barrels of oil per day and 900 billion cubic meters of natural gas by the end of 2030 according to the Wood Mackenzie. Management estimates that the Group carried approximately 20% of Russian seaborne exports of crude oil and oil products in 2009, and management believes the Group is the leading seaborne exporter of Russian hydrocarbons. As a result, management believes the Group is well positioned to capture a significant portion of this anticipated market growth. Further, the Group's capital expenditure plans anticipate growth in this market, including the Group's current orders for two new Aframax tankers and two new Suezmax tankers that are expected to be delivered before the end of 2010.

Strong, long-term relationships with high credit quality Russian and international customers

The Group has developed strong relationships with a broad and diverse list of high credit quality customers. The Group's customers include a number of Russian oil and gas companies, including Gazprom, Lukoil, Rosneft and TNK-BP. The Group's customers also include the major international oil companies, such as BP, Chevron, ConocoPhillips, ExxonMobil, Shell and Total, as well as other international oil and gas companies, such as Petrochina, Repsol and Statoil. Several project-specific companies also charter the Group's vessels, such as Naryanmarneftegaz (a joint-venture between Lukoil and ConocoPhillips), ExxonNeftegaz Ltd., Sakhalin Energy Investment Company Limited ("**SEIC**") and Tangguh LNG Project Partners ("**Tangguh Partners**"). The Group's customers also include major oil and gas trading houses, such as Glencore International AG ("**Glencore**"), Gunvor International, B.V. ("**Gunvor**"), Trafigura Limited ("**Trafigura**") and the Vitol Group. The Group attributes the strength and longevity of its customer relationships, and the opportunity to partner with these high credit quality customers on many long-term, logistically complex projects, to the diversity and depth of the Group's service offerings, the Group's reputation for consistent delivery of high-quality services and the Group's financial stability.

Balanced mix of contract terms with strong portfolio of long-term fixed rate contracts

The Group actively manages its vessel employment mix with a strong focus on deriving a significant portion of revenue from fixed-rate time charters. Management considers the Group's fleet deployment to be well balanced, with 58.8% of its revenue for the year ended December 31, 2009 from fixed-rate time charters (50.2% for the six months ended June 30, 2010) and 41.2% of its revenue for the year ended December 31, 2009 from spot charters and contracts of affreightment (49.8% for the six months ended June 30, 2010). As of June 30, 2010, the Group had total contracted future revenues of US$ 4.7 billion, including US$ 2.8 billion under contracts whose remaining terms exceeded five years in duration. Moreover, all of the Group's LNG carriers are employed on long-term fixed-rate time charters. Contracts with fixed pricing provide predictability of cash flows and reduce fluctuations in revenues. In addition, contracts of affreightment, even at variable prices, allow the Group to reduce unnecessary time waiting for cargoes, which enhances fleet utilization. At the same time, the Group's voyage charters in the spot market provide flexibility for ship scheduling and enable the Group to benefit from upturns, and expose the Group to declines, in market rates. Management believes that the Group's vessel employment mix provides efficient visibility in managing its fleet and stability in its operating cash flows.

Strong management team focused on operational excellence

The Group has a highly experienced management team, and the Group's executive board has an aggregate of more than 200 years of experience in the shipping industry. The Group's management has experience managing through multiple economic cycles and expertise across commercial, technical, financial and other functional management areas of the Group's business, which helps maintain their focus on operational excellence through in-house management and emphasis on high quality, cost efficient operations, and safety. Management believes the Group benefits from higher quality control over the commercial and technical management of its vessels due to its in-house operational expertise, such as operational and technical support, tanker maintenance, crewing, shipyard supervision, insurance and financial management services. Moreover, management believes that the Group's current operations are scalable, primarily because its in-house training facilities and relationships with the Russian state maritime academies provide the Group with a continuous supply of the most highly qualified seamen.

As a result of its experienced management team and highly trained seamen, management of the Group believes it is an industry leader in safety management and environmental standards and in developing and implementing technical innovations in the energy transportation industry to promote safety and efficiency. The Group's personnel have extensive seafaring experience, including valuable expertise in navigating icy waters. The Group's safety strategy focuses on the retention of its crewmembers to retain the most highly qualified seamen. For example, less than 10% of the Group's officers leave the Group within two years on average. In addition, management continually seeks to enhance the effectiveness of the Group's preventive technical arrangements and to promote the safety of its operations, as reflected in the Group's total recordable case frequency of 1.28 cases per one million man-hours in 2009, compared to the Intertanko industry average of 3.23. Management believes the Group's expertise in this area allows the Group to provide the highest quality services to its customers at a competitive cost level.

Strong and sustainable financial profile

The Group has maintained an investment grade credit rating from Moody's since July 2005 and is currently rated Baa3 with a stable outlook by Moody's and BBB– with a stable outlook by Fitch. The Group generates substantial cash flow from its operations and has strong access to liquidity, as well as a conservative total debt to capitalization ratio. The Group's net cash generated from operating activities for the year ended June 30, 2010 was 17.2% of its total borrowings as of June 30, 2010. Moreoever, as of June 30, 2010, the Group had total cash and cash equivalents of US$ 400.4 million, aggregate undrawn credit facilities of US$ 240.4 million and a ratio of net debt to total capitalization of 41.7%. The Group's high liquidity and low leverage ratio provide the Group with the capacity for additional financing to obtain new vessels. See "Operating and Financial Review—Liquidity and Capital Resources" and "Selected Consolidated Financial and Operating Data."

Group Strategy

On December 11, 2009, Sovcomflot's Board of Directors approved the Group's strategic plan for 2010 through 2015. Sovcomflot's Board of Directors and management have developed this strategic plan in line with government programs and strategies that have been published by the Russian Federation. The Group's strategic plan sets forth the following strategies, which the Group's management continues to monitor, develop and implement on an ongoing basis:

Maintain the leading position in exporting Russian hydrocarbons

Given Sovcomflot's status as a state-owned shipping company and a strategic asset of the Russian Government (see "—Legal Considerations—Status as a Strategic Enterprise"), the Group has a critical role in the development of Russia's energy sector, both as the leading energy shipping group in Russia and as a key element of the Russian hydrocarbon transportation infrastructure. Management considers the Group's operations to be, in effect, a seaborne extension of the Transneft pipeline infrastructure, which positions the Group to benefit from anticipated growth in Russian exports of hydrocarbons (see "Industry Overview—The Russian Oil and Gas Market"). Management estimates that the Group carried approximately 20% of Russian seaborne exports of crude oil and oil products in 2009. As a result, the Group is the largest carrier of seaborne hydrocarbon exports from Russia. The Group's strategy is to leverage its leading position to increase its market share in exporting Russian hydrocarbons. For example, management seeks to enhance the Group's cooperation with other key members of the Russian oil and gas industry, such as Gazprom, Rosneft, Lukoil, Transneft and others by providing high quality transportation services and marine logistics solutions for various oil and gas production projects. Moreover, management intends to continue to develop the Group's fleet to meet the particular needs of exports from Russia, such as increasing the number of ice-class vessels in the Group's fleet.

Create a national integrated offshore upstream services provider with a specific focus on operating in the harsh environment and ice conditions of the Baltic, Arctic and Far Eastern regions of Russia

According to CRSL, the Group is the largest owner worldwide of ice-class tankers, based on DWT capacity as of October 1, 2010. The Group currently operates a technologically advanced fleet that is able to serve large-scale integrated industrial projects, primarily in the Baltic, Arctic and Far Eastern regions of Russia. In particular, the Group provides supply vessel and shuttle tanker services to projects such as the Sakhalin-1 Project, Sakhalin-2 Project, Prirazlomnoye Project and the Varandey Project. These projects require highly specialized vessels and crew to be able to operate supply vessels and shuttle tankers, particularly in the extremely harsh icy-water conditions of the Arctic region and the Far Eastern region. As a result, the vessels in this segment earn a significant premium compared to traditional tankers, and this specific expertise provides a significant barrier to entry to potential competitors. As the largest owner worldwide of ice-class tankers and a diversified energy shipping company, management aims to leverage the Group's integrated expertise to gain market share in the growing Russian market for offshore oil and gas development.

Maintain the Group's status as a "preferred carrier" for oil and gas majors by focusing on a diverse and high-quality service offering

In addition to the Group's leading position in Russia, the Group was the largest tanker owner in the world based on the number of vessels in the Group's fleet, as of September 1, 2010, according to CRSL, and management aims to maintain the Group's status as a preferred carrier for both Russian and

international oil and gas majors. Management aims to leverage the Group's large, modern and technologically advanced fleet to meet the varying and complex needs of international oil and gas companies, who increasingly require younger vessels that meet heightened safety and emissions standards. Moreover, management intends to leverage the Group's integrated services across the energy value chain to expand its existing relationships with Russian and international oil and gas companies, by allowing such companies to depend on the Group as a single service provider for any of their energy transportation needs. Finally, management intends to maintain and enhance the Group's reputation as a leader in safety management, which management believes will continue to increase the Group's attractiveness to Russian and international oil and gas companies.

Strengthen the Group's market positions by expanding its fleet

In order to strengthen the Group's position in the Russian and international markets, management intends to expand the number and types of vessels the Group operates over the next several years, while maintaining its conservative financial profile. In Russia, management believes that increasing the size of the Group's ice-class fleet will allow the Group to maintain its leading position in the Russian energy export market. Moreover, management of the Group expects to invest in additional highly specialized shuttle tankers and supply vessels, designed to operate in the harsh environment and ice conditions of the Baltic, Arctic and Far Eastern regions of Russia, that can be used in the Group's integrated offshore services. Management of the Group believes these investments will allow the Group to maintain and strengthen its market positions in Russia. In addition, management plans to expand the Group's tanker fleet to meet the growing demands of international oil and gas companies, as well as to enter new tanker segments to broaden the Group's diverse energy transportation services. In particular, management expects to enter the LRI segment to complement the Group's existing oil products fleet and to meet the expected demand for long-haul oil product transportation. In addition, the Group may enter the VLCC segment to provide transportation services tailored to specific client requirements.

Focus the Group's investment policy on the needs of core Russian and international oil and gas clients

The Group's investment program has been designed to focus on the changing needs of the Group's core customers, with a particular emphasis on long-term industrial projects that can deliver recurring and predictable cash flows, particularly in the Baltic, Arctic and Far-Eastern regions of Russia, where the Group has competitive advantages. For example, in connection with the Varandey oil development project, the Group invested in three highly specialized ice-class shuttle tankers to meet the particular demands of the project, and those vessels were immediately chartered to the project operator under long-term fixed-rate contracts. Management of the Group intends to take advantage of such opportunities in the coming years, particularly in order to grow its offshore development and LNG transportation services. At the same time, management expects to make capital expenditures in crude oil and oil products tankers to preserve the Group's market shares in those segments while maintaining a conservative debt to total capitalization ratio.

History and Development

The Group was the first Russian shipping company established according to international shipping practices. The Group's operations began in 1973 through the adoption of a special resolution by the government of the Union of Soviet Socialist Republics (the "**USSR**"). The state-owned foreign trade organization "Sovcomflot" was created with the purpose of purchasing modern and second-hand vessels through long-term leasing schemes known as "bareboat charters." The bareboat charter vessel operations continued to develop after a Currency Fund for Commercial Operations within the Ministry of the Marine Fleet of the USSR was established in 1976. Over the next fifteen years, the Group acquired more than one hundred vessels under bareboat charters.

In 1988, Joint-Stock Commercial Enterprise "Sovcomflot" was instituted under the Fund for Commercial Operations within the USSR Ministry of Marine Fleet. Pursuant to the Resolution of the USSR Council of Ministers, the company was authorized to conduct operations in foreign markets. In 1995, Sovcomflot was further reorganized into a Russian joint-stock company and, from this year onward, the Russian Federation has owned 100% of Sovcomflot's ordinary shares.

Over the past 20 years, the Group has developed into Russia's largest shipping company and the world's sixth largest tanker owner through a series of organic growth, acquisitions, capital contributions and joint ventures. In 1991, the Group initiated its own independent tanker operations through a joint

venture named Unicom and the Group subsequently acquired 100% interest in the company. Unicom specializes in technical management, ship design, crewing and shipbuilding supervision, as well as the accounting and treasury center of the Group, Sovcomflot (Cyprus) Limited. In 2006, Sovcomflot acquired Marpetrol which has allowed for growth in the oil products transportation segment, as well as in the Spanish market. In the same year, the Group entered into a joint venture with Rosneft and began its FSO operations.

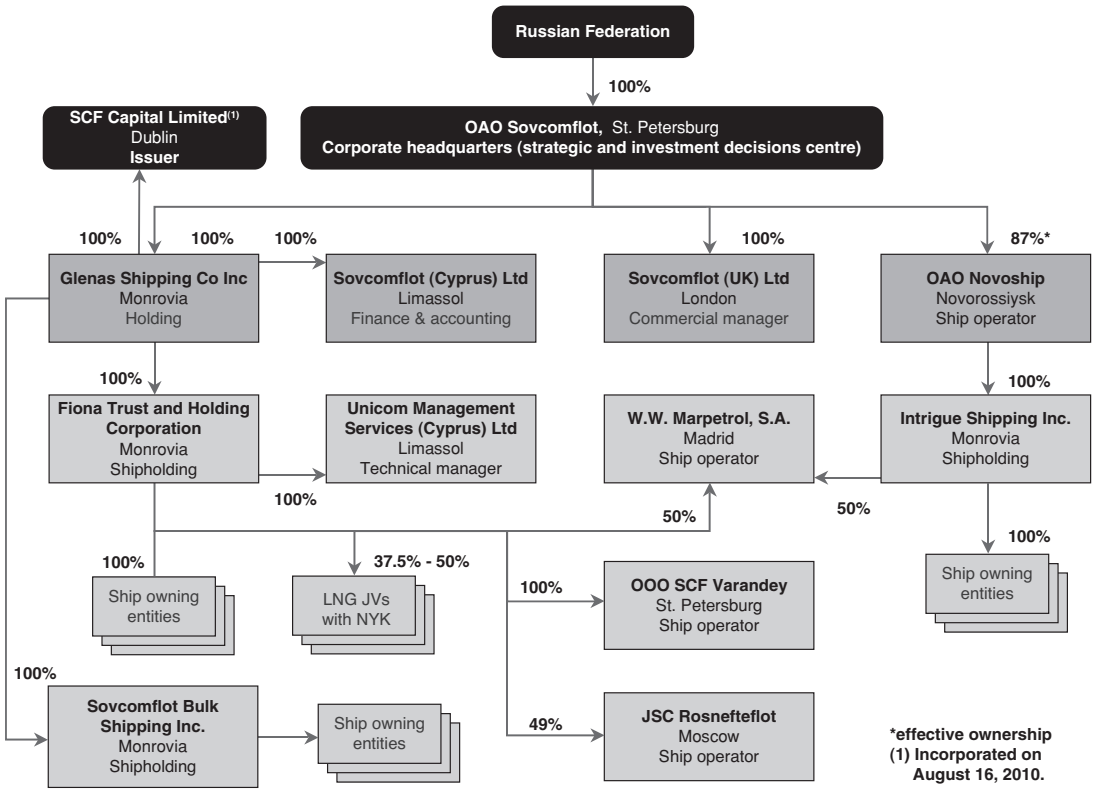
The Group's transformation into Russia's largest shipping company continued with the acquisition of Novoship in 2007. In particular, in December 2007, pursuant to Presidential Decree No. 784, dated June 20, 2007, and Government Resolution No. 964-r, dated July 20, 2007, the Russian Federation privatized its 50.3% interest in the charter capital of Novoship (equal to 67.1% of the ordinary shares and an effective interest of 66.5%) by transferring such interest to Sovcomflot in consideration for additionally issued shares of Sovcomflot. Following its acquisition of this interest in Novoship, and in accordance with the Joint-Stock Companies Law, Sovcomflot made a mandatory tender offer to Novoship's shareholders to acquire the remainder of the outstanding ordinary shares in Novoship. As a result of this tender offer, by the end of June 2008, Sovcomflot had increased its stake to an effective interest of 73.0%. Further, as a result of a series of open market transactions, Sovcomflot had increased its effective interest in Novoship to 86.6% as of December 31, 2009, and to 86.8% as of June 30, 2010. In addition, on September 10, 2010, a general shareholders meeting of Novoship resolved to decrease the charter capital of Novoship through the cancellation of 9.8% of its treasury shares, and approved a further buy-back of all remaining preferred shares, as well as ordinary shares representing 7.9% of Novoship's charter capital. If Novoship's charter capital is decreased and all shares are bought back as provided in this resolution, Sovcomflot's effective interest in Novoship may increase to up to 100%.

Novoship, founded in 1967, had operated as the largest shipping company in Southern Russia, conducting the management of bulk-oil fleets, product carriers and ports on the Russian coast of the Black Sea. This consolidation of Russian state-owned shipping assets enabled the Group to offer a full range of shipping services to Russian and international oil and gas companies and continue development of the Group's LNG shipping and offshore projects.

Organizational Structure

Sovcomflot is a holding company, and Sovcomflot's various subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. In line with established international shipping practice, most of the Group's vessels are each owned and financed by individual wholly owned subsidiaries (the "**vessel holding companies**") of the Group's intermediate holding companies, Fiona, Intrigue and SBSI. When a vessel is chartered to one of the Group's customers, the charter contract is entered into directly with the customer by the relevant vessel holding company, and the resulting cash flows run through such subsidiary. Most of the Group's existing indebtedness is incurred by vessel holding companies with guarantees provided by Fiona, Intrigue or Marpetrol and is secured by mortgages over certain of the Group's vessels and pledges of vessel holding companies' shares (see "Operating and Financial Review—Liquidity and Capital Resources—Borrowings" and "Risk Factors—Risks Relating to the Notes—The Group's assets are held in subsidiaries to which Noteholders have no direct recourse, and the Group has a significant amount of indebtedness in such subsidiaries."). Ship management services for the Group's vessels are primarily provided by Sovcomflot's subsidiaries Unicom, Novoship, Marpetrol and Rosnefteflot, a joint venture between the Group and Rosneft.

The chart below sets forth the Group's organizational structure as of June 30, 2010:



Fleet

The table below sets forth a summary of all of the Group's vessels as of June 30, 2010, broken down by business segment and type:

Ship Name	Owned	Chartered-in	Newbuilding	Total	Average Age(1)
Crude Oil Transportation					
Aframax oil tanker	36	3	4	43	6.1
Suezmax oil tanker	16	1	2	19	4.2
Oil Product Transportation					
Asphalt and bitumen carrier	3		2	5	10.6
Chemical and oil carrier	23			23	5.1
Handysize product carrier	11			11	13.8
MR product carrier	20	1		21	7.0
LRII product carrier	4			4	1.0
Gas Transportation					
LNG gas fleet	6			6	15.7
LPG gas fleet	2			2	3.5
Offshore Development Services					
Aframax shuttle tanker	2			2	4.6
Panamax shuttle tanker	4		1	5	1.6
Ice breaking platform supply vessel	1			1	4.0
Coal Transportation and Ancillary Marine Services					
Tug	7		2	9	0.9
Panamax bulker	1			1	12.3
MPPI multipurpose vessel	3			3	18.4
TOTAL	139	5	11	155	5.9

(1) Average age includes only owned and chartered-in vessels and is weighted based on the DWT of such vessels..

All of the Group's tanker fleet is double-hulled, and the Group's fleet had an average age, weighted by deadweight tonnage, of 5.9 years as of June 30, 2010, which is one of the youngest and most modern fleets in the world among major tanker operators, compared to a weighted average fleet age of approximately 10 years for the world cargo fleet over 5,000 DWT, according to CRSL. See "—Key Competitive Strengths—Modern and diverse fleet enabling a broad product offering." Management believes the Group's modern fleet is a key competitive advantage in the markets in which it operates, and management continually seeks to renew portions of the Group's fleet to maintain the competitive profile of its vessels.

The Group's Operations

Crude Oil Transportation

Overview

The Group, through its subsidiaries, operates a crude oil tanker fleet that was the second largest Aframax tanker fleet and the fourth largest Suezmax tanker fleet in the world as of September 1, 2010, according to CRSL. As of June 30, 2010, the Group's crude oil tanker fleet consisted of 39 Aframax tankers (including three chartered-in vessels) and 17 Suezmax tankers (including one chartered-in vessel). As of the same date, the Group also had orders for six newbuildings, including four Aframax tankers and two Suezmax vessels, of which two Aframax tankers were delivered in July 2010 and September 2010, respectively. Management of the Group expects to take delivery of the remaining newbuildings, on a staggered basis, by February 2011. This fleet of Aframax and Suezmax tankers operates primarily from the Baltic Sea and Black Sea to Europe and on intra-Mediterranean voyages.

This segment generated US$ 431.4 million (approximately 46.3%) of the Group's time-charter equivalent revenues in 2009 and US$ 242.4 million (approximately 48.8%) of the Group's time-charter equivalent revenues in the six months ended June 30, 2010. As of June 30, 2010, the Group's fleet in this segment consisted of 56 crude oil carriers (including four chartered-in vessels), representing a total capacity of approximately 7.0 million DWT. The average age of the vessels in this segment, weighted by deadweight tonnage, was 5.4 years as of June 30, 2010.

Competition

Competition for charters in the crude oil tanker market is intense and is based upon the price, location, size, age, condition and acceptability of the vessel and the reputation of the vessel's operator. The Group's competition in each of the size classes in which it competes is also affected by the availability of other size vessels that compete in that market. For example, Suezmax vessels may compete at certain times for some of the same charters for which the Group's Aframax tankers compete. Similarly, VLCCs can compete at certain times for some of the same charters for which the Group's Suezmax vessels compete. Since VLCCs comprise a substantial portion of the total capacity of the market, movements by such vessels into Suezmax routes or of Suezmax vessels into Aframax routes would heighten the already intense competition.

The Group's main competitors in this segment are other operators of crude oil tankers, ranging in size from Aframax to VLCCs, including Malaysian International Shipping Corporation ("**MISC**"), Teekay Corporation ("**Teekay**"), Frontline Ltd., General Maritime Corporation, Overseas Shipholding Group, Euronav N.V, Nordic American Tankers, Minerva Marine Inc. and Mitsui OSK Lines.

Chartering and Customers

The global tanker charter market comprises tanker broker companies that represent both charterers and ship-owners in chartering transactions. Within this market, some transactions, referred to as "market cargoes," are offered by charterers through two or more brokers simultaneously and shown to the widest possible range of owners. Other transactions, referred to as "private cargoes," are given by the charterer to only one broker and shown selectively to a limited number of owners whose tankers are most likely to be acceptable to the charterer and are in position to undertake the voyage. In addition, in many cases, charterers contact the Group directly to charter a vessel because of their existing relationships with the Group. The Group's chartering activities are based primarily in London, England. Fleet operations, vessel positions and charter market rates are monitored around the clock, which management of the Group believes to be critical in making informed bids on competitive brokered business.

The Group's main customers in this segment include the major international oil companies, including Chevron, ConocoPhillips, ExxonMobil and Shell, as well as other oil traders and national oil companies, including Gunvor, Statoil, Vitol and Petrochina.

The Group maintains a variety of different charter contracts in place with its customers to facilitate operational flexibility while providing the Group some visibility of its cash flows. In the six months ended June 30, 2010, approximately 54.7% of the Group's voyage days in this segment were engaged on time charters and 45.3% of the Group's voyage days in this segment were used in the spot market (including contracts of affreightment).

Fleet

The table below sets forth the Group's crude oil carriers as of June 30, 2010:

Ship Name	Vessel Type	Capacity (DWT)	Owned/ Chartered-in	Ownership (%)	Year Built	Flag
Oil Tankers						
ADELE MARINA RIZZO	Aframax	108,835	Chartered-in	N/A	2010	Italy
ADYGEYA	Aframax	105,926	Owned	100	2005	Liberia
IBLEA	Aframax	105,845	Chartered-in	N/A	2003	Liberia
KALUGA	Aframax	115,707	Owned	100	2003	Liberia
KAZAN	Aframax	115,727	Owned	100	2003	Liberia
KRASNODAR	Aframax	115,605	Owned	100	2003	Liberia
KRYMSK	Aframax	115,605	Owned	100	2003	Liberia
KUBAN	Aframax	106,562	Owned	100	2000	Liberia
LIGOVSKY PROSPECT	Aframax	114,639	Owned	100	2003	Liberia
LITEYNY PROSPECT	Aframax	114,546	Owned	100	2003	Liberia
MOSCOW	Aframax	106,553	Owned	100	1998	Liberia
MOSCOW KREMLIN	Aframax	106,521	Owned	100	1998	Liberia
MOSCOW RIVER	Aframax	106,521	Owned	100	1999	Liberia
MOSCOW STARS	Aframax	106,450	Owned	100	1999	Liberia
MOSCOW UNIVERSITY	Aframax	106,521	Owned	100	1999	Liberia
NEVSKIY PROSPECT	Aframax	114,598	Owned	100	2003	Liberia
NS CAPTAIN	Aframax	105,914	Owned	100	2006	Liberia
NS CENTURY	Aframax	105,703	Owned	100	2006	Liberia
NS CHALLENGER	Aframax	105,824	Owned	100	2005	Liberia
NS CHAMPION	Aframax	105,902	Owned	100	2005	Liberia
NS CLIPPER	Aframax	105,703	Owned	100	2006	Liberia
NS COLUMBUS	Aframax	105,703	Owned	100	2007	Liberia
NS COMMANDER	Aframax	105,782	Owned	100	2006	Liberia
NS CONCEPT	Aframax	105,824	Owned	100	2005	Liberia
NS CONCORD	Aframax	105,902	Owned	100	2005	Liberia
NS CONSUL	Aframax	105,703	Owned	100	2006	Liberia
NS CORONA	Aframax	105,860	Owned	100	2006	Liberia
NS CREATION	Aframax	105,802	Owned	100	2007	Liberia
NS LAGUNA	Aframax	115,857	Owned	100	2007	Liberia
NS LEADER	Aframax	115,857	Owned	100	2007	Liberia
NS LION	Aframax	115,857	Owned	100	2007	Liberia
NS LOTUS	Aframax	115,849	Owned	100	2008	Liberia
PETRODVORETS	Aframax	105,692	Owned	100	1999	Liberia
PETROKREPOST	Aframax	105,657	Owned	100	1999	Liberia
PETROPAVLOVSK	Aframax	106,532	Owned	100	2002	Liberia
PETROVSK	Aframax	106,449	Owned	100	2004	Liberia
PETROZAVODSK	Aframax	106,449	Owned	100	2003	Liberia
RICH QUEEN II	Aframax	105,572	Chartered-in	N/A	2007	Panama
SCF BALTICA	Aframax	117,153	Owned	100	2005	Liberia
ALEKSEY KOSYGIN	Suezmax	163,545	Owned	100	2007	Liberia
NS BORA	Suezmax	156,572	Owned	100	2010	Liberia
NS BURGAS	Suezmax	156,572	Owned	100	2009	Liberia
PRISCO ALCOR	Suezmax	166,546	Chartered-in	N/A	2007	Cyprus

Ship Name	Vessel Type	Capacity (DWT)	Owned/ Chartered-in	Ownership (%)	Year Built	Flag
SCF ALDAN	Suezmax	159,062	Owned	100	2005	Liberia
SCF ALTAI	Suezmax	159,168	Owned	100	2001	Liberia
SCF BAIKAL	Suezmax	158,290	Owned	100	2010	Liberia
SCF BYRRANGA	Suezmax	159,156	Owned	100	2005	Liberia
SCF CAUCASUS	Suezmax	159,173	Owned	100	2002	Liberia
SCF KHIBINY	Suezmax	159,196	Owned	100	2002	Liberia
SCF PRIMORYE	Suezmax	157,340	Owned	100	2009	Liberia
SCF SAMOTLOR	Suezmax	157,300	Owned	100	2010	Liberia
SCF SAYAN	Suezmax	159,185	Owned	100	2002	Liberia
SCF SURGUT	Suezmax	158,290	Owned	100	2009	Liberia
SCF URAL	Suezmax	159,314	Owned	100	2002	Liberia
SCF VALDAI	Suezmax	159,304	Owned	100	2003	Liberia
VLADIMIR TIKHONOV	Suezmax	162,362	Owned	100	2006	Liberia

In addition to those listed above, the Group took delivery of the Olympiysky Prospect and the Moskovsky Prospect, each an Aframax carrier with a capacity of 114,100 DWT, on July 6, 2010 and September 13, 2010, respectively.

Oil Products Transportation

Overview

The Group, through its subsidiaries, operates an oil products tanker fleet that was the third largest MR oil product carrier fleet in the world in terms of tanker DWT as of September 1, 2010, according to CRSL. As of June 30, 2010, the Group's oil products tanker fleet comprised 23 chemical and oil carriers, 21 MR oil product carriers (including one chartered-in vessel under a finance lease), 11 Handysize product carriers, four LR2 product carriers and three asphalt and bitumen carriers. The Group has no newbuildings orders for oil products carriers. This fleet of oil products tankers operates on a worldwide basis with a focus on the Atlantic region.

This segment generated US$ 324.1 million (approximately 34.8%) of the Group's time-charter equivalent revenues in 2009 and US$ 147.1 million (approximately 29.6%) of the Group's time-charter equivalent revenues in the six months ended June 30, 2010. As of June 30, 2010, the Group's fleet in this segment consisted of 36 petroleum product carriers (including one chartered-in vessel on a finance lease), 23 chemical and oil carriers and three asphalt and bitumen carriers, representing a total capacity of approximately 2.6 million DWT. The average age of the vessels in this segment, weighted by deadweight tonnage was 6.6 years as of June 30, 2010.

Competition

The Group's chemical petroleum and product carriers primarily compete in the Handysize and MR tanker markets, but the Group also entered the LR2 market with the delivery of four LR2 tankers to the Group in 2009. Competition for charters in these markets is intense and is based upon the price, location, size, age, condition and acceptability of the vessel (including which products have recently been carried by the vessel) and the reputation of the vessel's operator. The Group's competition in each of the size classes in which it competes is also affected by the availability of other size vessels that compete in that market. See "—Crude Oil Transportation—Competition." The Group's main competitors in this segment are other operators of oil products and chemical tankers, ranging in size from Handysize to LR2, including Overseas Shipholding Group, Torm A/S, AP Moeller and China Shipping Group.

Chartering and Customers

The chartering market in the oil products segment is the same market as for crude oil tankers (See "—Crude Oil Transportation—Chartering and Customers"). The Group's main customers in this segment include major oil companies and trading houses, such as Shell, BP, Gazpromneft, Glencore and Trafigura. In addition, the Group operates a pool of vessels with Glencore (17 vessels as of June 30, 2010) for the joint commercial management of the pooled vessels.

The Group maintains a variety of different charter contracts in place with its customers to facilitate operational flexibility while providing the Group some visibility of its cash flows. In the six months ended

June 30, 2010, approximately 53.1% of the Group's voyage days in this segment were engaged on time charters and 46.9% of the Group's voyage days in this segment were used in the spot market (including contracts of affreightment).

Fleet

The table below sets forth the Group's oil products and chemical carriers as of June 30, 2010:

Ship Name	Vessel Type	Capacity (DWT)	Owned/ Chartered-in	Ownership (%)	Year Built	Flag
Asphalt & Bitumen Carriers						
MAR ALMUDENA	SMALL	9,776	Owned	100	1994	Malta
MAR PAULA	SMALL	5,895	Owned	100	2004	Spain
MAR VICTORIA	SMALL	5,872	Owned	100	2003	Spain
Chemical & Oil Carriers						
MAR CRISTINA	COASTAL, IMO II	6,671	Owned	100	2001	Spain
MAR ISA	COASTAL, IMO II	4,815	Owned	100	2003	Spain
MAR MARIA	COASTAL, IMO II	4,823	Owned	100	2003	Spain
MAR ROCIO	COASTAL, IMO II	6,967	Owned	100	1999	Spain
MAR VIRGINIA	COASTAL, IMO II	9,631	Owned	100	1996	Spain
MAR ADRIANA	SMALL, IMO II	18,736	Owned	100	2002	Spain
MAR DANIELA	SMALL, IMO II	18,736	Owned	100	2003	Spain
MAR ELENA	SMALL, IMO II	18,736	Owned	100	2003	Spain
MAR PATRICIA	SMALL, IMO III	17,925	Owned	100	1998	Malta
NS PARADE	HANDYSIZE, IMO III	40,149	Owned	100	2008	Liberia
NS POINT	HANDYSIZE, IMO III	40,150	Owned	100	2008	Liberia
NS POWER	HANDYSIZE, IMO III	40,161	Owned	100	2006	Liberia
NS PRIDE	HANDYSIZE, IMO III	40,119	Owned	100	2006	Liberia
NS SILVER	MR, IMO II	47,197	Owned	100	2005	Liberia
NS SPIRIT	MR, IMO II	46,941	Owned	100	2006	Liberia
NS STELLA	MR, IMO II	47,197	Owned	100	2005	Liberia
NS STREAM	MR, IMO II	47,197	Owned	100	2006	Liberia
ANICHKOV BRIDGE	MR, IMO III	47,842	Owned	100	2003	Liberia
ELBRUS	MR, IMO III	46,655	Owned	100	2004	Malta
HERMITAGE BRIDGE	MR, IMO III	47,842	Owned	100	2003	Liberia
NARODNY BRIDGE	MR, IMO III	47,842	Owned	100	2003	Liberia
OKHTA BRIDGE	MR, IMO III	47,842	Owned	100	2004	Liberia
PAMIR	MR, IMO III	44,990	Owned	100	2004	Malta
Product Carriers						
TAGANROG[(1)]	HANDYSIZE	40,713	Owned	100	1996	Liberia
TAMAN[(1)]	HANDYSIZE	40,818	Owned	100	1996	Liberia
TAMBOV	HANDYSIZE	40,727	Owned	100	1996	Liberia
TEMRYUK[(1)]	HANDYSIZE	40,584	Owned	100	1996	Liberia
TIKHORETSK	HANDYSIZE	40,727	Owned	100	1996	Liberia
TIKHVIN[(1)]	HANDYSIZE	40,727	Owned	100	1996	Liberia
TIMASHEVSK	HANDYSIZE	40,577	Owned	100	1996	Liberia
TOMSK	HANDYSIZE	40,703	Owned	100	1997	Liberia
TROITSK[(1)]	HANDYSIZE	40,816	Owned	100	1996	Liberia
TULA	HANDYSIZE	40,500	Owned	100	1997	Liberia
TVER	HANDYSIZE	40,749	Owned	100	1996	Liberia
AZOV SEA	MR	47,363	Owned	100	1998	Liberia
BARENTS SEA	MR	47,431	Owned	100	1998	Liberia
BERING SEA	MR	47,431	Owned	100	1998	Liberia
EAST POINT	MR	50,921	Chartered-in	N/A	2006	Italy
EAST SIBERIAN SEA	MR	47,358	Owned	100	1998	Liberia
KARA SEA	MR	47,431	Owned	100	1998	Liberia
LAPTEV SEA	MR	47,431	Owned	100	1998	Liberia
MOSCOW SEA	MR	47,431	Owned	100	1998	Liberia
OKHOTSK SEA	MR	47,431	Owned	100	1999	Liberia
SCF AMUR	MR	47,000	Owned	100	2007	Liberia
SCF NEVA	MR	47,000	Owned	100	2006	Liberia
SCF PECHORA	MR	47,000	Owned	100	2007	Liberia

Ship Name	Vessel Type	Capacity (DWT)	Owned/ Chartered-in	Ownership (%)	Year Built	Flag
SCF YENISEI	MR	47,000	Owned	100	2007	Liberia
TAVRICHESKY BRIDGE	MR	47,400	Owned	100	2006	Liberia
TEATRALNY BRIDGE . .	MR	47,400	Owned	100	2006	Liberia
TORGOVY BRIDGE . . .	MR	46,697	Owned	100	2005	Liberia
TOWER BRIDGE	MR	47,252	Owned	100	2004	Liberia
TRANSSIB BRIDGE	MR	47,400	Owned	100	2008	Liberia
TROITSKY BRIDGE	MR	47,199	Owned	100	2003	Liberia
TUCHKOV BRIDGE	MR	47,363	Owned	100	2004	Liberia
TVERSKOY BRIDGE . . .	MR	47,400	Owned	100	2007	Liberia
NS AFRICA	LR II	111,682	Owned	100	2009	Liberia
NS ANTARCTIC	LR II	111,107	Owned	100	2009	Liberia
NS ARCTIC	LR II	111,107	Owned	100	2009	Liberia
NS ASIA	LR II	111,682	Owned	100	2009	Liberia

(1) These vessels have been sold subsequent to June 30, 2010, in arm's length transactions, with delivery expected to take place before the end of 2010.

Gas Transportation

Overview

The Group operates a fleet of six LNG carriers and two LPG carriers. The LNG shipping market is distinguishable from the crude oil and oil products shipping markets, in that LNG shipping arrangements have historically been carried out almost exclusively pursuant to time charters of long duration that require LNG carriers to perform dedicated transport services to LNG receiving facilities. All of the Group's LNG carriers are chartered on long-term fixed rate contracts, which provide the Group predictability in its cash flows from these vessels. Management aims to expand the Group's operations in the LNG market in the coming years.

The principal routes served by the Group's LNG carriers are from Sakhalin Island to the Asian Pacific Rim, from Indonesia to South Korea and the West Coast of Mexico, from Trinidad to the Atlantic Basin, from the Middle East to the Mediterranean and intra-Mediterranean voyages. The Group's two LPG carriers operate worldwide and are on time charters until 2012 and 2016.

This segment generated US$ 77.4 million (approximately 8.3%) of the Group's time-charter equivalent revenues in 2009 and US$ 42.9 million (approximately 8.6%) of the Group's time-charter equivalent revenues in the six months ended June 30, 2010. As of June 30, 2010, the Group's fleet in this segment consisted of six LNG carriers and two LPG carriers, representing a total capacity of approximately 453,000 DWT. The average age of the vessels in this segment, weighted by deadweight tonnage, was 13.4 years as of June 30, 2010.

Competition

The vessels in the Group's gas transportation segment compete in the LNG and LPG markets. In the LNG markets, the Group competes principally with other private and state-controlled energy and utilities companies, which generally operate captive fleets, and independent ship owners and operators. Many major energy companies compete directly with independent owners by transporting LNG for third parties in addition to their own LNG. Given the complex, long-term nature of LNG projects, major energy companies historically have transported LNG through their captive fleets. However, independent fleet operators have been obtaining an increasing percentage of charters for new or expanded LNG projects as major energy companies have continued to divest non-core businesses. The major operators of LNG carriers are MISC, NYK Line, BW Gas Mitsui O.S.K. ("**Mitsui**"), Qatar Gas Transport (Nakilat), Shell and Teekay Corporation.

Chartering and Customers

LNG carriers are almost exclusively chartered to carry LNG pursuant to time-charter contracts, where a vessel is hired for a fixed period of time, usually between 15 and 25 years, and the charter rate is payable to the owner on a monthly basis at a fixed rate. LNG projects require significant capital expenditures and typically involve an integrated chain of dedicated facilities and cooperative activities. Accordingly, the overall success of an LNG project depends to a large extent on long-range planning and coordination of project activities, including marine transportation.

LPG carriers are typically chartered to carry LPG and Ammonia (NH3) under spot and time-charter contracts. The two largest consumers of LPG are residential users and the petrochemical industry. Residential users, particularly in developing regions where electricity and gas pipelines are not developed, do not have fuel switching alternatives and generally are not LPG price sensitive. The petrochemical industry, however, has the ability to switch between LPG and other feedstock fuels depending on price and availability of alternatives. The largest consumers of Ammonia (NH3) are fertilizer producers and distributors with demand for product being governed by seasonal agricultural conditions.

The Group's LNG and LPG carriers are all operated subject to long-term, fixed-rate time-charter contracts, and in some cases, the charterers have the option, under certain conditions at specified times, to purchase the chartered vessel at specified prices. The Group provides LNG transportation services primarily to two gas developments: the Sakhalin-2 Project and the Tangguh Project. In addition to SEIC and Tangguh Partners, the Group's main customer in the LNG transportation market is Stream, a joint venture between Repsol and Gas Natural SDG, S.A. The Group's main customers in the LPG/NH3 transportation market include Transammonia AG and Geogas Trading S.A.

Sakhalin-2 Project

The Sakhalin-2 Project is an oil, gas, and condensate development in Russia on the North and Eastern shelves of Sakhalin Island. The project is operated by Sakhalin Energy Investment Company Limited (SEIC), a joint venture among Gazprom, Shell, Mitsui and Mitsubishi. The Sakhalin-2 Project is the Russian Federation's inaugural LNG project exporting gas via the LNG plant and terminal at Prigorodnoye, Aniva Bay, in the South of Sakhalin Island. LNG exports started in March 2009, and the projected annual production of LNG has been set at 9.6 million tons. The Group, in a joint venture with NYK Line, owns and operates two ice-class LNG carriers to provide the project with seaborne LNG transportation services under long-term charters to SEIC. The time charters for the Grand Aniva and the Grand Elena expire in 2027 and 2028, respectively, and in each case, SEIC has the right to extend these contracts for two successive periods of five years. The Group's agreements with SEIC indicate that the LNG will be exported principally to customers in the Pacific basin, such as Japan, South Korea and the USA via Mexico. The Group also operates a supply vessel for the project as well as manages its onshore terminal (see "—Offshore Development Services" and "—Coal Transportation and Ancillary Marine Services").

Tangguh Project

The Tangguh Project is a gas development in Eastern Indonesia operated by The Tangguh Production Sharing Contractors ("**TPSC**"), which is controlled by an international consortium led by BP Berau, a subsidiary of BP. LNG exports started at the end of 2008, and the projected annual production of LNG has been set at 7.6 million tons. The Group, in a joint venture with NYK Line (Japan) and Samudera Shipping Line Ltd., owns and operates two LNG carriers, Tangguh Batur and Tangguh Towuti, to provide the project with seaborne LNG transportation services under long-term charters to TPSC. Long-term sales agreements indicate that the LNG will be exported to markets in China, South Korea and the USA via Mexico. The time charters for the Tangguh Batur and the Tangguh Towuti expire in 2025 and 2028, respectively, and in each case, TPSC has the right to extend these contracts for a period of one year.

Fleet

The table below sets forth the Group's LNG and LPG carriers as of June 30, 2010:

Ship Name	Vessel Type	Capacity (DWT)	Owned/ Chartered-in	Ownership (%)	Year Built	Flag
Gas Fleet						
TANGGUH BATUR	LNG	73,300	Owned	50	2008	Singapore
TANGGUH TOWUTI	LNG	73,300	Owned	37.5	2008	Singapore
GRAND ANIVA	LNG	71,200	Owned	50	2008	Cyprus
GRAND ELENA	LNG	71,200	Owned	50	2007	Cyprus
SCF ARCTIC	LNG	40,586	Owned	100	1969	Liberia
SCF POLAR	LNG	36,738	Owned	100	1969	Liberia
SCF TOBOLSK	LPG	26,200	Owned	100	2006	Liberia
SCF TOMSK	LPG	26,200	Owned	100	2007	Liberia

Offshore Development Services

Overview

Offshore oil and gas development projects are an increasingly important part of the world's oil and gas production infrastructure. Oil is one of the world's most important energy sources, and, approximately 31% of global production was met by offshore activities in 2009, according to CRSL. As a result of the worldwide development of key upstream projects, the Offshore Oil and Gas Industry of Russia and CIS anticipates that the share of global production met by offshore activities will increase to 40% by 2015. Gas is the third largest global energy source, after oil and coal, and approximately 19% of global natural gas production is met by offshore activities. International oil and gas companies use a variety of drilling and production platforms or other offshore installations to drill wells and extract hydrocarbons. Once oil or gas is extracted, it may be sent via underwater pipes to the mainland, but, in many cases, the installation of such a pipeline is not feasible. In such cases, oil and gas companies may use an FPSO or an FSO. FPSOs are floating vessels that are designed to receive oil or gas from nearby installations, process it to remove impurities, such as water, sand, and stones, and then store it onboard until it can be offloaded to a tanker or transported through a pipeline. FPSOs are well suited for deepwater oil fields in excess of 8,000 feet where a fixed installation and pipeline may not be feasible. FSOs are similar, but they are not capable of processing the oil or gas to remove impurities.

Shuttle tankers are specialized ships designed to transport crude oil and condensates from offshore oil field installations, such as fixed offshore terminals, FSOs or FPSOs, to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from oil field installations, even in harsh weather conditions. Shuttle tankers were originally developed in the North Sea as an alternative to pipelines and are often described as "floating pipelines" because these vessels typically shuttle oil from offshore installations to onshore facilities in much the same way a pipeline would transport oil along the ocean floor. Offshore production is increasing in the Russian Arctic, where the construction of pipelines is economically unfeasible due to the harsh weather and ice conditions. The Group's shuttle tanker fleet operates primarily to service the Varandey Project in the Pechora Sea and Sakhalin 1 Project in the Tartar Straits.

This segment generated US$ 81.3 million (approximately 8.7%) of the Group's time-charter equivalent revenues in 2009 and US$ 56.0 million (approximately 11.3%) of the Group's time-charter equivalent revenues in the six months ended June 30, 2010. As of June 30, 2010, the Group's fleet in this segment consisted of six shuttle tankers with a total capacity of approximately 485,000 DWT, as well as one specialized ice-class platform supply vessel. The Group's supply vessel transports machinery, spare parts and consumable goods to offshore installations and remove waste from such installations, as well as having the ability to assist in emergency situations with equipment for oil spill combat and fire fighting. To date, however, the Group's supply vessel has not been called upon to act as an emergency vessel. As of June 30, 2010, all of the Group's shuttle tankers and supply vessels were engaged on long-term time charters. The average age of the vessels in this segment, weighted by deadweight tonnage, was 2.8 years as of June 30, 2010. The Group also provides other logistical support services to these offshore development projects, such as the technical management and crewing of FSOs and the seasonal redeployment of its Suezmax tankers as FSOs in the Baltic region and the Black Sea.

Competition

Competition for charters in this segment is based primarily upon price, availability, the size, technical sophistication, age and condition of the vessel and the reputation of the vessel's manager. Technical sophistication of the vessel is especially important in harsh operating environments such as the Arctic and Far East regions. Other major shuttle tanker operators include Knutsen O.A.S. Shipping AS, Teekay Offshore, BW Group Limited and JJ Ugland. Management believes the Group has significant competitive advantages in the shuttle tanker market as a result of the quality, type and dimensions of its vessels, combined with the Group's market share in the Arctic and Far East regions.

Chartering and Customers

The Group's shuttle tankers and supply vessels are all subject to long-term, fixed-rate time-charter contracts for a specific offshore oil field, where a vessel is hired for a fixed period of time by the project operator and in certain cases, the charterers have the option to purchase the vessels at various points over

the life of the charter. These charter contracts are typically for periods of 10 years or more, and rates are quoted per day, with adjustments for inflation in certain charter contracts.

Sakhalin-1 Project

The Sakhalin-1 Project is an oil and gas development in Russia on the Northeast shelf of Sakhalin Island, comprising the Chayvo, Odoptu and Arkutun-Dagi fields. The Sakhalin-1 is operated by Exxon Neftegas Limited, a project company controlled by an international consortium consisting of affiliates of ExxonMobil Corporation, SODECO, Rosneft and ONGC Videsh Ltd. A pipeline has been constructed from the producing oilfields to the DeKastri Export Terminal in the Tartar Straits, from where oil is shipped to international markets utilizing fully winterized ice-class oil tankers. The Group has constructed two highly specialized, purpose built, ice-class Aframax tankers with bow-loading systems, the Victor Konetsky and the Yuri Senkevich, to transport Sakhalin-1 oil from DeKastri under long-term contracts that expire in 2021. The Group also purchased the SCF Sakhalin ice breaking platform supply vessel in July, 2010 for servicing the Sakhalin-1 project, which is operating under a long-term contract that expires in 2020.

Sakhalin-2 Project

As discussed above, the Sakhalin-2 project is an oil, gas and condensate development on the North and Eastern shelves of Sakhalin Island (see "—Gas Transportation—Sakhalin-2 Project"). In addition to the LNG carrier charters that the Group has with SEIC, the project operator, the Group operates the Pacific Endurance, a supply vessel, jointly with Swire Pacific Offshore Limited for the project under a long-term time charter that expires in 2021.

Varandey Project

The Varandey Project is a crude oil development in Russia operated by Narianmarneftegaz, a joint venture between Lukoil and ConocoPhillips. The Project comprises the development of the Timano-Pechorskoe and other neighboring oil fields, as well as the operation of the export terminal at Varandey in the Barents Sea. The Group had three highly specialized super ice-class shuttle tankers, of 70,000 tons DWT each, constructed at Samsung Heavy Industries in South Korea. The vessels have been chartered to Narianmarneftegaz under long-term time-charter contracts to provide seaborne transportation of crude oil from the Varandey Project. Oil shipments from Varandey commenced in June 2008, and these long-term time charters expire in 2018, 2023 and 2024, and in each case, Narianmarneftegaz has the right to extend these contracts for two successive periods of five years.

Prirazlomnoye Project

The Prirazlomnoye Project is a crude oil development in Russia controlled by Gazprom Neft shelf (formerly Sevmorneftegaz), a 100% subsidiary of Gazprom. The Prirazlomnoye oil field is located offshore in the Barents Sea. This industrially underdeveloped area is characterized by extremely low temperatures and strong ice loads. The Group ordered two highly specialized super ice-class shuttle tankers of 70,000 tons DWT from Admiralteysky Shipyard, Russia. The vessels have been chartered to Sevmorneftegaz under long-term time-charter contracts to provide seaborne transportation of crude oil from the Prirazlomnoye project. The delivery of the first ship in the series took place in February 2010, the second ship was delivered in September 2010 and both time charter contracts expire in 2035.

Fleet

The table below sets forth the Group's shuttle tanker and supply vessels as of June 30, 2010:

Ship Name	Vessel Type	Capacity (DWT)	Owned/ Chartered-in	Ownership (%)	Year Built	Flag
Shuttle Tankers						
VICTOR KONETSKY	Aframax	100,600	Owned	100	2005	Liberia
YURI SENKEVICH	Aframax	100,600	Owned	100	2005	Cyprus
KAPITAN GOTSKY	Panamax	71,228	Owned	100	2008	Russia
VASILY DINKOV	Panamax	71,254	Owned	100	2008	Russia
TIMOFEY GUZHENKO . .	Panamax	71,266	Owned	100	2009	Russia
MIKHAIL ULYANOV	Panamax	69,830	Owned	100	2010	Cyprus
Supply Vessels						
PACIFIC ENDURANCE . .	Ice breaking platform supply	4,482	Owned	100	2006	Russia

In addition to those listed above, on July 22, 2010 the Group purchased SCF Sakhalin, an ice breaking platform supply vessel with a capacity of 4,200 DWT. On September 10, 2010, the Group also accepted delivery of the Kirill Lavrov, a Panamax shuttle tanker with a capacity of 70,053 DWT.

Coal Transportation and Ancillary Marine Services

Overview

In this segment, the Group operates a bulk cargo carrier primarily for the dedicated transportation of coal from Russia. The Group's investments in this segment are primarily for the construction of specialized ice-class coal carrier vessels that are chartered out to Russian clients, such as SUEK, a major Russian thermal coal mining company, for the purpose of exporting coal from Russian export terminals. The Group operates three ice-class multi-purpose vessels under time charters which primarily trade within the Atlantic region.

The Group also provides a variety of logistical services to terminal operators, such as the operation of tug vessels, primarily for mooring shuttle tankers to FSOs and bringing large vessels into the port of St. Petersburg, and the management of onshore oil and gas terminals. For example, in connection with the Sakhalin-2 project (see "—Gas Transportation—Sakhalin-2 Project" and "—Offshore Development Services—Sakhalin-2 Project"), the Group operates the LNG terminal at Prigorodnoye in a joint venture with SEIC. The Group also provides SEIC with piloting services and husbandry agent services, which require the Group to make all necessary repairs and to attend to the management, equipment and other concerns of vessels.

This segment generated US$ 18.2 million (approximately 1.9%) of the Group's time-charter equivalent revenues in 2009 and US$ 8.1 million (approximately 1.6%) of the Group's time-charter equivalent revenues in the six months ended June 30, 2010. As of June 30, 2010, the Group's fleet in this segment consisted of four dry cargo carriers with a total capacity of approximately 98,000 DWT, as well seven tugs.

Fleet

The table below sets forth the Group's dry cargo carriers and tug vessels as of June 30, 2010:

Ship Name	Vessel Type	Capacity (DWT)	Owned/ Chartered-in	Ownership (%)	Year Built	Flag
Dry Cargo Fleet—Bulkers and Multipurpose Vessels						
SCF SUEK	Panamax	69,100	Owned	100	1998	Liberia
SOCOL 1	MPP I	9,598	Owned	100	1991	Malta
SOCOL 4	MPP I	9,600	Owned	100	1992	Malta
SOCOL 5	MPP I	9,600	Owned	100	1992	Malta
Specialized Fleet						
KAPITAN AVDYUKOV	TUG	230	Owned	100	2009	Russia
KAPITAN POPOV	TUG	230	Owned	100	2009	Russia
KAPITAN REUTOV	TUG	150	Owned	100	2009	Russia
RADOMIR	TUG	230	Owned	100	2009	Russia
RATIBOR	TUG	230	Owned	100	2009	Russia
SADKO	TUG	220	Owned	100	2009	Russia
STAVR	TUG	220	Owned	100	2009	Russia

In addition to those listed above, on July 12, 2010 the Group accepted delivery of the Dobrynya, a tug vessel with a capacity of 230 DWT. In July and September 2010, the Group also ordered the construction of four new Panamax bulk carriers for a total purchase price of US$ 158 million. These vessels are expected for delivery in 2013.

Safety Management and Ship Operations

Safety and environmental compliance are the Group's top operational priorities. The Group operates its vessels in a manner intended to protect the safety and health of the Group's employees, the general public and the environment. Management of the Group seeks to manage the risks that are inherent in its business and is committed to eliminating incidents that threaten the safety and integrity of the Group's vessels, such as groundings, fires, collisions and petroleum spills. The Group is also committed to reducing its vessels' emissions and waste generation.

In 2009, the Group unified its safety management system, which incorporated recommendations from the Tanker Management and Self Assessment ("**TMSA**") code that was developed by the Oil Companies International Marine Forum ("**OCIMF**"). OCIMF, a voluntary association of oil companies that have an interest in shipping crude oil and oil products and operating both onshore and offshore oil terminals, has been organized to represent its members before, and to consult with, the IMO and other governmental bodies on matters relating to shipping crude oil and oil products and operating oil terminals, including marine pollution and safety. TMSA evaluates shipping companies according to 12 elements and assigns one of four grades for each such element. Management of the Group aims to achieve the highest TMSA level in all 12 elements, and in 2009, Unicom and Novoship, the Group's two leading providers of technical management services, both received ratings of three or higher for every element. Moreover, the Group maintains a comprehensive safety monitoring system, which is based on best industry practices, including the TMSA code.

All of the Group's vessels are operated under a comprehensive and integrated safety management system that complies with the ISM Code, the ISO 9001 for Quality Assurance and ISO 14001 for Environment Management Systems. The Group's safety management system is certified by DNV, the Norwegian classification society. Although certification is valid for five years, compliance with the above-mentioned standards is confirmed on a yearly basis by a rigorous auditing procedure that includes both internal audits as well as external verification audits by DNV and certain flag states.

The Group's ship management services are provided primarily by its subsidiaries Unicom, Novoship, Marpetrol and Rosnefteflot. SCF Swire Offshore PTE Ltd, a joint venture between the Group and Swire Pacific Offshore Services Ptd Ltd, also manages the platform supply vessels chartered by SEIC. The Group also provides certain ship management services, which can range from full technical management to selected management functions, to third-party owners or operators, including NYK Line and Stena Bulk AB. Ship management services include such critical functions as: vessel maintenance (including repairs and

drydocking) and certification; crewing by competent seafarers; procurement of stores, bunker fuel and spare parts; management of emergencies and incidents; newbuildings supervision; insurance; and financial management services. Of Sovcomflot's subsidiaries that are involved in the provision of ship management services, Unicom manages oil tankers, shuttle tankers, LNG carriers and bulkers; Novoship manages oil tankers and bulkers; Marpetrol manages chemical, asphalt and bitumen tankers; and Rosnefteflot, a joint venture between the Group and Rosneft, manages tugs and FSOs. Integrated onboard and onshore systems support the management of maintenance, inventory control and procurement, crew management and training and assist with budgetary controls.

Employees

The following table sets forth the number of employees of the Group as of the end of the periods indicated, broken down by function:

	As of June 30,	As of December 31,		
	2010	2009	2008	2007
Officers	1,855	1,892	1,738	1,268
Crew members	1,661	1,735	1,733	1,929
Administration and other	1,840	1,762	2,113	2,063
Total	5,356	5,389	5,584	5,260

Note: Includes all the Group's seafaring employees, including employees actively deployed on a Group vessel and the Group's onshore employees under long-term contracts who are expected to be deployed on a Group vessel within the next four months, in each case, as of the end of the period shown.

The number of employees of the Group has not changed materially since June 30, 2010. As of June 30, 2010, the Group employed 5,356 employees, of whom 3,516 were seafarers and 1,840 were shore-based personnel, compared to 5,389 employees as of December 31, 2009, of whom 3,627 were seafarers and 1,762 were shore-based personnel. This decrease was primarily the result of a decrease in the number of vessels owned by the Group, excluding chartered-in vessels, for which the Group does not supply the crew, from 143 vessels as of December 31, 2009, to 140 vessels as of June 30, 2010.

The following table sets forth a geographic breakdown of the number of employees of the Group, as of the end of each of the periods indicated:

	As of June 30,	As of December 31,		
	2010	2009	2008	2007
Russia	4,985	4,983	5,155	4,803
Cyprus	176	187	185	193
United Kingdom	19	19	19	11
Spain	176	200	225	253
Total	5,356	5,389	5,584	5,260

Note: Includes all the Group's seafaring employees, including employees actively deployed on a Group vessel and the Group's onshore employees under long-term contracts who are expected to be deployed on a Group vessel within the next four months, in each case, as of the end of the period shown.

The Group regards attracting and retaining motivated seagoing personnel as a top priority. Through the Group's crewing offices St. Petersburg, Novorossiysk and Vladivostok, the Group offers its seafarers what it believes to be competitive employment packages and comprehensive benefits. Moreover, the Group has taken several measures to ensure the safety and wellbeing of its employees, including the introduction of additional staff aboard its vessels, the installation of fitness facilities onboard and offering contracts that reduce time at sea for commanding officers. In addition, the Group's crewing policy onboard its ships is that all crew and officers onboard a ship at a time must speak the same language to minimize the risk of miscommunications among the crew, as well as to promote social living conditions onboard the Group's vessels. Partly as a result of these and other efforts, the Group has what it believes to be a very low turnover rate, as illustrated by the fact that less than 10% of the Group's officers leave the Group within two years on average.

Labor Relations

Most of the Group's seafarers belong to unions, and the Group has two collective bargaining agreements with the Seafarer's Union of Russia, an affiliate of the ITF that govern the Group's employment of seafarers serving on a substantial portion of the Group's vessels. These agreements were originally concluded for a term of two years, from 2008 to 2009, and were subsequently extended until December 31, 2010. In addition, the Group is party to a collective bargaining agreement with a Spanish seafarer trade union in relation to its Spanish seafaring employees, and the Group's employment of its seafarers is also governed by collective bargaining agreements among the Russian Federation and certain trade unions and industry organizations. The terms of these agreements generally govern the wages paid to the Group's crew, minimum living conditions onboard the Group's vessels, as well as other benefits and conditions of the seafarers' employment. These agreements are all subject to customary renegotiation, and the Group may also become subject to additional collective bargaining agreements in the future. The Group has never suffered from work stoppages as a result of labor disruptions, and management believes the Group's relationships with the ITF and other trade unions are good.

Personnel Management and Training

The Group is committed to developing and training its personnel. Management selects the Group's personnel from highly qualified cadets at Russia's maritime educational establishments and other specialized professional schools for seafarers. The Group is involved in the training of these cadets throughout their education, with candidates receiving training sessions as operators or technical superintendents in on-shore establishments. The company hires approximately 80 graduates from these maritime educational establishments annually.

Advanced maritime training continues throughout a seafarer's employment with the Group. The Group benefits from strong relationships with Russia's maritime educational institutions, using their existing advanced training centers to train personnel, as some of the Group's top managers are members of academic councils of all three state maritime academies in Russia. Additionally, training sessions are held in Novorossiysk at Novoship's training centre. The Group, in cooperation with the educational institutions, is constructing its own simulator center in St. Petersburg and is exploring the possibility of constructing another such center in Novorossiysk.

Currently, the Group is developing a special program focusing on the training and retraining of personnel and enhancing the social security system for seamen. "SCF-2015," which management believes to be an example of the Group's continued commitment to crew development and advancement of on-shore personnel qualification, is expected to include training programs in ice-conditions and onboard a variety of the Group's vessels.

Properties

The Group leases offices in Moscow, London and Madrid from the third parties under long-term lease agreements for terms ranging from three to 10 years. These lease agreements were entered into by the Group in 2006 and 2007. Under a long-term lease agreement with the Saint Petersburg Property Management Committee, the Group leases its office building and the underlying land in Saint Petersburg. This lease agreement was executed in March 2006 for a term of 49 years, with an option in certain circumstances to acquire the building and underlying land. On October 6, 2010, the Group won an auction to acquire its office building and underlying land in Saint Petersburg, but the acquisition has not yet been completed. The Group also owns non-residential premises and buildings in Moscow, Saint Petersburg, Novorossiysk and Limassol, and these properties had an aggregate book value of US$ 29 million as of June 30, 2010. The Group leased the land plot underlying its owned building in Moscow for a term of 49 years, beginning from August 1994.

Risk of loss and insurance

The operation of any ocean-going vessel carries an inherent risk of catastrophic marine disasters, death or injury of persons and property, losses caused by adverse weather conditions, mechanical failures, human error, war, terrorism, piracy and other circumstances or events. In addition, the transportation of crude oil, petroleum products, LNG and LPG is subject to the risk of spills and to business interruptions due to political circumstances in foreign countries, hostilities, labor strikes and boycotts. The occurrence of any of these events may result in loss of revenues or increased costs.

To protect itself from certain of these risks, the Group carries hull and machinery (including marine and war risks) insurance and protection and indemnity insurance coverage to protect against most of the accident-related risks involved in the conduct of the Group's business. Hull and machinery insurance generally covers the loss of, or damage to, a vessel due to marine perils such as collisions, grounding and weather. Protection and indemnity insurance indemnifies the Group for liabilities incurred while operating vessels, including injury to the Group's crew or third parties, cargo loss and pollution. Insurance policies also cover war risks, including piracy and terrorism risks, and such policies typically cover the entire hull value of a vessel. However, the Group does not generally carry insurance on its vessels covering the loss of revenues resulting from vessel off-hire time based on its cost compared to the Group's overall off-hire experience.

Management believes that the Group's current insurance coverage is adequate to protect against most of the accident-related risks involved in the conduct of its business and that the Group maintains appropriate levels of environmental damage and pollution insurance coverage, consistent with industry norms. However, there can be no assurance that all covered risks are adequately insured against, that any particular claim will be paid or that the Group will be able to procure adequate insurance coverage at commercially reasonable rates in the future. In addition, more stringent environmental regulations have resulted in increased costs for, and may result in the lack of availability of, insurance against risks of environmental damage or pollution.

Classification, Audits and Inspections

Generally, the Group's inspection procedures and requirements are a multi-layer quality control system that consists of newbuilding supervision, crew selection and training as discussed above; monitoring of vessels by the Group's crew; control of the vessels and crew by an onshore technical manager; and evaluations of technical managers, crew and vessels by various third parties, such as classification societies, flag states, ports, charterers and insurers.

The Group's vessels are regularly inspected by the Group's seafaring crews, which perform much of the necessary routine maintenance. Shore-based operational and technical specialists also inspect vessels at least twice a year. Upon completion of each such inspection, action plans are developed to address any items requiring improvement. All action plans are monitored until completion. The objectives of these inspections are to ensure: adherence to the Group's internal operating standards; that the structural integrity of the vessel is being maintained; that the Group's machinery and equipment is being maintained to give full reliability in service; that the Group is optimizing performance in terms of speed and fuel consumption; and that the vessel's appearance will support the Group's brand and meet customer expectations.

The hull and machinery of all the Group's vessels have been "classed" by one of the major classification societies: Det Norske Veritas, Lloyd's Register of Shipping, Russian Maritime Register of Shipping or American Bureau of Shipping. In each case, the relevant classification society certifies that the vessel has been built and maintained in accordance with the rules of that classification society. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (an "**Intermediate Survey**") and the fifth annual inspection being the most comprehensive survey (a "**Special Survey**"). The inspection cycle resumes after each Special Survey. Vessels also may be required to be drydocked at each Intermediate Survey and Special Survey for inspection of the underwater parts of the vessel in addition to a more detailed inspection of hull and machinery. Many of the Group's vessels have qualified with their respective classification societies for drydocking every five years in connection with the Special Survey and are no longer subject to drydocking at Intermediate Surveys. To qualify, the Group was required to enhance the resiliency of the underwater coatings of each vessel hull to accommodate underwater inspections by divers.

Each vessel's flag state, or the vessel's classification society if nominated by the flag state, also inspects the Group's vessels to ensure they comply with applicable rules and regulations of the country of registry of the vessel and the international conventions to which that country is a signatory. Port state authorities, such as the U.S. Coast Guard (the "**Coast Guard**") and the Australian Maritime Safety Authority, also inspect the Group's vessels when they visit their ports. Many of the Group's customers also regularly inspect the Group's vessels, commonly known as "vetting," as a condition to chartering. Management believes that the Group's modern, well-maintained and high-quality vessels provide the Group with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality of service.

Status as a Strategic Enterprise

By Decree of the Russian Government No. 1226-r of August 20, 2009, Sovcomflot was included on the Russian Federation's list of strategic enterprises and organizations that have a special status in respect of bankruptcy and debt restructuring matters. This status provides Sovcomflot some benefits in relation to its creditors and with respect to bankruptcy under Russian law. First, the Russian Government is authorized to take measures to maintain Sovcomflot's financial stability and to prevent the initiation of bankruptcy proceedings. In doing so, the Russian Government may assist in negotiating the restructuring of Sovcomflot's debt with private creditors (including by means of providing state guarantees). Second, the regime applicable to the bankruptcy of strategic entities is generally more protective to the debtor compared to the regime governing the bankruptcy of ordinary business entities. For instance, the bankruptcy regulations for strategic entities provide a higher threshold for initiating bankruptcy proceedings (unpaid debt in the amount of RUR 500,000 for six months, as opposed to the general rule of unpaid debt of RUR 100,000 for three months) and stricter requirements with respect to the person who can serve as the bankruptcy manager. In addition, the Russian Federation has specific rights with respect to bankruptcy proceedings for strategic entities and can oversee the bankruptcy proceedings or undertake certain supportive measures to prevent bankruptcy once proceedings have been initiated. Moreover, a bankruptcy manager is obligated to perform state contracts of strategic entities and cannot dispose of the assets needed to perform such contracts. Finally, as a general rule, the assets of bankrupt strategic entities must be sold at an open competitive tender, the winner of which is obliged to preserve the designated use for the assets of such entities and to continue performing relevant state contracts. The Russian Federation also generally has a right of first refusal in acquiring assets from bankrupt strategic entities.

In addition to the benefits conveyed upon Sovcomflot as a result of Decree of the Russian Government No 1226-r, the Group is also included on the list of strategic enterprises and strategic joint-stock companies that have certain restrictions with respect to their share capital pursuant to a separate decree (see "Share Capital and Dividends").

Legal Proceedings

In 2005, Fiona and certain other members of the Group commenced proceedings in the High Court in London against Yuri Nikitin (the principal of Standard Maritime Holding Corporation), Yuri Privalov (the former Managing Director of Fiona Maritime Agencies Limited (subsequently renamed Sovcomflot UK Limited)), Dimitry Skarga (the former CEO of Sovcomflot) and certain entities connected with Mr. Nikitin (the "**2005 Proceedings**"). Further defendants were joined to the 2005 Proceedings in 2007, including H. Clarkson & Co Ltd. ("**Clarkson**") and Richard Gale (together with Clarkson, the "**2007 Defendants**"). In July 2008, the 2005 Proceedings, including the 2007 Defendants, were joined with a separate set of proceedings that had been brought by Intrigue and certain of Novoship's subsidiaries against Mr. Nikitin and others (the "**Intrigue Proceedings**" and, together with the 2005 Proceedings, the "**Joined Proceedings**").

In February 2009, a new set of proceedings (the "**2009 Proceedings**") was commenced by various members of the Group against Messrs. Skarga and Nikitin, Milmont Finance Ltd. and Premium Nafta Products Ltd. In March 2009, the 2009 Proceedings were joined with the Joined Proceedings (together, the "**Proceedings**").

In 2005, the claimants under the 2005 Proceedings reach a settlement with Mr. Privalov. In June 2008, a settlement was reached with the 2007 Defendants.

The Proceedings concern allegations that Messrs. Skarga and Nikitin, who were former colleagues, embarked on a course of dishonest conduct following Mr. Skarga's appointment as CEO of Sovcomflot. This conduct led to certain Sovcomflot subsidiaries entering into transactions, relating to the sale and leaseback of vessels, with companies affiliated with Mr. Nikitin. These transactions were on unfavorable terms for the Group and consequently seriously detrimental to the interests of Sovcomflot and its subsidiaries, and correspondingly for the benefit of Mr. Nikitin and the companies that he owned or controlled. The claimants under the Proceedings also allege that millions of dollars were paid by Mr. Nikitin, with Mr. Skarga's knowledge, by way of bribes to Mr. Privalov and to Igor Borisenko, who was at the time the Executive Vice President and Chief Financial Officer of Sovcomflot. Mr. Privalov and Mr. Borisenko have both admitted to the receipt of such payments. It is also alleged that bribes or other unlawful benefits were paid to or conferred upon Mr. Skarga.

The trial of the Proceedings commenced on October 1, 2009, and concluded on March 31, 2010. As of June 30, 2010, the Group had recovered greater than US$ 80 million by way of settlements, and the balance of the claims under the Proceedings was in the region of between US$ 810 million and US$ 880 million. The judgment is expected before the end of 2010.

The Group has obtained security and freezing injunctions covering assets belonging to the defendants in the Proceedings with an aggregate value of US$ 602 million to secure the payment of any award of damages under the Proceedings. In connection with the freezing injunctions, the Group was required to pay a total of US$ 7 million into court by way of undertakings in damages. Having taken legal advice, however, management of the Group does not believe it likely that these undertakings in damages will be called upon.

No member of the Group has been involved in any governmental, legal or arbitration proceedings during the 12 months preceding the date of this Prospectus that may have, or have had in the recent past, significant effects on the financial position or profitability of Sovcomflot, the Issuer and/or the Group nor, so far as Sovcomflot and the Issuer are aware, are any such proceedings pending or threatened.

REGULATORY OVERVIEW

The Group's business and the operation of its vessels are significantly affected by international conventions, treaties and national, state and local laws and regulations in the jurisdictions in which its vessels operate, as well as in the country or countries of their registration. Because these conventions, treaties, laws and regulations change frequently, management of the Group cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of its vessels. Additional conventions, treaties, laws and regulations may be adopted that could limit the Group's ability to do business or increase the Group's cost of doing business and that may materially adversely affect its operations. The Group is required by various governmental and quasi-governmental agencies to obtain permits, licenses and certificates with respect to its operations. Subject to the discussion below, management believes that the Group will be able to continue to obtain all permits, licenses and certificates material to the conduct of the Group's operations.

Management of the Group believes that the heightened environmental and quality concerns of insurance underwriters, regulators and charterers will generally lead to increased inspections and safety requirements for all vessels in the oil tanker and LNG and LPG carrier markets and will accelerate the scrapping of older vessels throughout these markets.

International Maritime Organization (IMO)

The IMO, an agency of the United Nations, is responsible for measures to improve international shipping and to prevent pollution from ships. The IMO has developed international treaties and conventions to regulate the international shipping industry, which are incorporated into each signatory state's legislation, that now apply to over 98% of the world's shipping. The most important of these are mentioned below.

Convention on Civil Liability ("CLC")

Many countries other than the United States have ratified and follow the liability scheme adopted by the IMO and set out in CLC. Under CLC, a tanker's registered owner is strictly liable for pollution damage caused in the territorial waters of a signatory state by the persistent discharge of oil, such as crude oil, fuel oil, heavy diesel oil and lubricating oil, subject to certain outstanding circumstances, including pollution damage resulting from an act of war, caused by a third party, or caused by the negligence or wrongful act of a local government responsible for the maintenance of lights or other navigational aids. CLC maximum liability, as amended by the Protocol of 1992, is currently limited to approximately US$ 142 million (approximately US$ 996 per gross ton plus US$ 7.1 million for the first 5,000 gross tons), an amount that is subject to periodic adjustment. The right to limited liability is forfeited only where pollution damage is caused by the owner's personal act or omission committed with the intent to cause such damage or acting recklessly and with knowledge that the actions will result in such damage. Tankers trading in the territorial waters of contracting states must provide evidence of insurance covering the maximum amount for which the owner is strictly liable. In jurisdictions where CLC has not been adopted, other than the United States, various legislative schemes or common law govern, and liability is imposed on the basis of fault or in a manner similar to CLC.

International Convention for the Prevention of Pollution from Ships ("MARPOL 73/78")

Annex 1 of MARPOL 73/78 deals with the prevention of pollution from oil. MARPOL 73/78 provides stringent construction and operating standards to prevent the release of oil into the environment. Under the requirements of MARPOL 73/78, all new oil tankers built since 1996 are required to have double hulls.

MARPOL 73/78 was modified following the Erika and Prestige incidents on the west coast of Europe in 1999 and 2002, respectively. In 2002, new amendments came in to force to Annex 1 of MARPOL 73/78 that set a global timetable for the accelerated phase out of single hull tankers. These new regulations identify two categories of single hull tankers that are principally distinguished on the basis of whether they have protectively located segregated ballast tanks. Vessels fall into these categories if they are over 20,000 DWT carrying heavy oil and over 30,000 DWT carrying other oils. Category 3 tankers are tankers above 5,000 DWT but below the tonnage of category 1 and category 2 tankers. These older single hull tankers must undergo a condition assessment scheme survey that applies to category 1 vessels continuing to operate until 2005 and to category 2 vessels continuing to operate after 2010. However, these amendments have been surpassed by the 2003 MARPOL amendments that came into force on April 5, 2005. These amendments accelerate the final phasing out of category 1 tankers to 2005 and category 2 and 3 tankers to 2010.

All of the Group's owned and finance leased tankers are double-hulled vessels and all of the Group's tankers are fully compliant with Annex 1 of MARPOL 73/78.

MARPOL 73/78 has further annexes, including Annex 2, Control of Pollution by Noxious Liquid Substances, Annex 4, Prevention of Pollution by Sewage and Annex 6, Prevention of Air Pollution from Ships. All of the Group's vessels are fully compliant with all requirements of MARPOL 73/78 and its amendments.

Annex 6 of MARPOL 73/78 entered into force on May 19, 2005, and subsequent amendments entered into force on July 1, 2010. This annex sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances. The sulfur content of fuel oil is today limited to 4.5% m/m globally with a planned global reduction to 3.5% by 2012 and a global reduction to 0.5% by 2020 or, subject a review in 2018, possibly deferred to 2025. Annex 6 also contains provisions allowing for special sulfur oxide emission control areas ("**SECAs**") to be established with more stringent controls on sulfur emissions. In SECAs, the sulfur content of fuel oil used on board ships is subject to a maximum level of 1.0%, which has applied since June 30, 2010, and will continue in force until 2014. From 2015, the level will be further lowered to 0.1%.

The additional cost of fuel to comply with the 0.1% regulation from 2015 will be significant and for shipping operators in competition with land based transport alternatives, it is feared that the regulation will have a negative effect in terms of transported freight volumes. Annex 6 also sets limits on emissions of nitrogen oxides from diesel engines and prohibits deliberate emissions of ozone depleting substances, which include halons and chlorofluorocarbons. Annex 6 also prohibits the incineration onboard ships of certain products, such as contaminated packaging materials and polychlorinated biphenyls.

EU Directive 2005/33/EC, which entered into force on July 6, 2005, amended Directive 1999/32/EC regarding the sulfur content of marine fuels. Annex 6 of MARPOL 73/78 has, to some extent, made Directive 2005/33/EC redundant, with some notable exceptions as to the requirement on sulfur content when at berth in an EU port to be no more than 0.1% with effect from January 2010.

International Convention for the Control and Management of Ships' Ballast Water and Sediments

This convention includes technical standards and requirements that should be implemented in accordance with a set deadline. It requires all new and existing ships to install ballast water treatment systems before 2016.

International Convention on Load Lines ("ICLL")

ICLL, which entered into force on July 21, 1968, establishes principles and rules concerning the limits to which ships may be loaded for international voyages. The provisions take into account the potential for hazards in different maritime regions and seasonal operating conditions, and designate how, where and when assigned load lines are to be marked on each ship. Generally, ICLL applies to all ships that are greater than 24 meters (79 feet) in length (for ships built since 1966) or greater than 150 tons gross, unless otherwise exempted by the terms of ICLL. Currently each of the Group's vessels, to which ICLL is applicable, are operating under an International Load Line Certificate demonstrating that the vessel has been surveyed and marked in accordance with ICLL.

International Convention for Safety of Life at Sea ("SOLAS")

SOLAS '74 establishes basic safety standards for the construction and operation of merchant ships engaged on international voyages. SOLAS '74 has been ratified by more than 90 countries. SOLAS '74 provides safety standards for construction, machinery and electrical installations, life-saving equipment, radiotelegraphy and radiotelephony, navigation and the carriage of dangerous goods. SOLAS '74 puts the primary responsibility for compliance on the flag state, but there are provisions that recognize certain rights and obligations of countries where the ships call.

Further amendments adopted to SOLAS '74 in 2000 and 2002 stipulate, among other things, that ships be fitted with an automatic identification system and a voyage data recorder for ships engaged on international voyages. Additional security provisions adopted under SOLAS in December 2002 include mandatory compliance with the new International Ship and Port Facility Security Code. The Group's operations are fully compliant with these requirements.

SOLAS was further amended in May 2006 (effective January 1, 2008) with respect to long range identification and tracking ("**LRIT**"). SOLAS regulation on LRIT establishes a multilateral agreement for sharing LRIT information, including the ship's identity, location and date and time of the position, for security and search and rescue purposes. The amendment contains a phased-in implementation schedule

for ships constructed before the entry into force of the amendment. The Group's ships are in compliance with the LRIT implementation schedule.

Finally, all of the Group's vessels and management companies comply with Chapter IX of the SOLAS convention entitled Management for the Safe Operation of Ships. This made the ISM Code mandatory and established safety management objectives, which are to:

- provide for safe practices in ship operation in a safe working environment;
- establish safeguards against all identified risks; and
- continuously improve safety management skills of personnel, including preparing for emergencies.

The code requires a safety management system to be established by the ship-owner or manager who has responsibility for operating the ship and which establishes a policy for achieving the objectives. This includes providing the necessary resources and shore based support and a designated person ashore having direct access to the highest level of management. The code is documented and compiled in a safety management manual that is kept onboard the ship. Every vessel has to have a safety management certificate and a copy of the document of compliance of the shipowner or manager on board. The Group's vessels and management companies all are compliant with this code and are audited regularly to ensure that this remains the case.

HNS Convention

The International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea ("**HNS**") 1996 is awaiting the appropriate ratification by sufficient signatory states but is unlikely to come into force for some time.

The liability aspects of HNS are based on the CLC by establishing a regime of strict liability and the registered ship-owner's right to limit liability. However, HNS goes further than the CLC in that it covers not only pollution damage, but also the risks of fire and explosion including loss of life or personal injury, as well as loss or damage to property. HNS substances include oil, liquefied gases and other dangerous, hazardous or harmful materials.

The present maximum limit of liability is approximately US$ 157.9 million (between US$ 568 and US$ 2,370 per gross ton), though it is likely that these limits will increase once HNS is ratified and comes into force.

IMO regulations also include, specifically with respect to LNG carriers, the International Code for the Construction and Equipment of Ships Carrying Liquefied Gases in Bulk (the "**IGC Code**"). The IMO Marine Safety Committee has also published guidelines for vessels with dynamic positioning ("**DP**") systems, which would apply to shuttle tankers and DP-assisted FSOs and FPSOs.

Non-compliance with IMO regulations, including SOLAS, the ISM Code, the International Ship and Port Facility Security Code ("**ISPS**") and the IGC Code may subject the Group to increased liability or penalties, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports. For example, the Coast Guard and EU authorities have indicated that vessels not in compliance with the ISM Code and the ISPS will be prohibited from trading in U.S. and European ports, respectively.

LNG and LPG carriers are subject to regulation under the IGC Code. Each LNG carrier must obtain a certificate of compliance evidencing that it meets the requirements of the IGC Code, including requirements relating to its design and construction. Each of the Group's LNG carriers currently is in substantial compliance with the IGC Code, and each of the Group's LNG newbuilding shipbuilding contracts requires compliance prior to delivery.

Environmental regulation—U.S. regulations

The United States has enacted an extensive regulatory and liability regime for the protection and clean-up of the environment from oil spills, including discharges of oil cargoes, bunker fuels or lubricants, primarily through the Oil Pollution Act of 1990 ("**OPA 90**") and the Comprehensive Environmental Response, Compensation and Liability Act (or "**CERCLA**"). OPA 90 affects all owners, bareboat charterers and operators whose vessels trade to the United States or its territories or possessions or whose vessels operate in U.S. waters, which include the U.S. territorial sea and 200-mile exclusive economic zone around the United States.

Under OPA 90, vessel owners, operators and bareboat charterers are "responsible parties" and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war and the responsible party reports the incident and reasonably cooperates with the appropriate authorities) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. These other damages are defined broadly to include:

- natural resources damages and related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, fees and other lost revenues;
- lost profits or impairment of earning capacity due to property or natural resources damage;
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and
- loss of subsistence use of natural resources.

OPA 90 limits the liability of responsible parties. The limit for double-hulled tank vessels is the greater of US$ 2,000 per gross ton or US$ 17.1 million per double-hulled tanker per incident, subject to possible further adjustment for inflation. These limits of liability would not apply if the incident were proximately caused by violation of applicable U.S. federal safety, construction or operating regulations, including IMO conventions to which the United States is a signatory, or by the responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. In addition, CERCLA, which applies to the discharge of hazardous substances (other than oil) whether on land or at sea, imposes strict, joint and several liability upon owners, operators and bareboat charterers of vessels for cleanup costs and damages arising from discharges of hazardous substances. Liability under CERCLA is limited to the greater of US$ 300 per gross ton or US$ 5 million, unless the incident is caused by gross negligence, willful misconduct, or a violation of certain regulations, in which case liability is unlimited.

The Coast Guard has implemented regulations requiring evidence of financial responsibility in an amount equal to the applicable OPA limitation on liability with the CERCLA liability limit of US$ 300 per gross ton. Under the regulations, such evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternate method subject to agency approval. Under OPA 90, an owner or operator of a fleet of vessels is required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the tanker in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA.

The Coast Guard's regulations concerning certificates of financial responsibility ("**COFR**") provide, in accordance with OPA 90, that claimants may bring suit directly against an insurer or guarantor that furnishes COFR. In addition, in the event that such insurer or guarantor is sued directly, it is prohibited from asserting any contractual defense that it may have had against the responsible party and is limited to asserting those defenses available to the responsible party and the defense that the incident was caused by the willful misconduct of the responsible party. Certain organizations, which had typically provided COFR guaranties under pre-OPA 90 laws, including the major protection and indemnity organizations, have declined to furnish evidence of insurance for vessel owners and operators if they are subject to direct actions or required to waive insurance policy defenses.

The Coast Guard's financial responsibility regulations may also be satisfied by evidence of surety bond or guaranty, or by self-insurance. The Group has complied with the Coast Guard regulations by obtaining financial guaranties from a third-party. If other vessels in the Group's fleet trade into the United States in the future, management of the Group expects to obtain additional guarantees from third-party insurers.

OPA 90 and CERCLA permit individual states to impose their own liability regimes with regard to oil or hazardous substance pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited strict liability for spills. Several coastal states, including California, Washington and Alaska, require state specific COFRs and vessel response plans. Management of the Group intends to comply with all applicable state regulations in the ports where the Group's vessels call.

Owners or operators of tank vessels operating in United States waters are required to file vessel response plans with the Coast Guard, and their tank vessels are required to operate in compliance with their Coast Guard-approved plans. Such response plans must, among other things:

- address a "worst case" scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a "worst case discharge";
- describe crew training and drills; and
- identify a qualified individual with full authority to implement removal actions.

The Group has filed vessel response plans with the Coast Guard for the vessels it owns and has received approval of such plans for all vessels in its fleet to operate in United States waters. In addition, the Group conducts regular oil spill response drills in accordance with the guidelines set out in OPA 90. The Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

CERCLA contains a similar liability regime to OPA 90, but applies to the discharge of "hazardous substances" rather than "oil." Petroleum products and LNG should not be considered hazardous substances under CERCLA, but additives to oil or lubricants used on LNG carriers might fall within its scope. CERCLA imposes strict joint and several liability upon the owner, operator or bareboat charterer of a vessel for cleanup costs and damages arising from a discharge of hazardous substances.

OPA 90 and CERCLA do not preclude claimants from seeking damages for the discharge of oil or hazardous substances under other applicable law, including maritime tort law. Such claims could include attempts to characterize the transportation of LNG aboard a vessel as an ultra-hazardous activity under a doctrine that would impose strict liability for damages resulting from that activity. The application of this doctrine varies by jurisdiction. There can be no assurance that a court in a particular jurisdiction will not determine that the carriage of oil or LNG aboard a vessel is an ultra-hazardous activity, which would expose the Group to strict liability for damages caused to parties even when the Group has not acted negligently.

Environmental regulation—other environmental initiatives

In addition, the IMO, various countries and states, such as Australia, the United States and the State of California, and various regulators, such as port authorities, the Coast Guard and the U.S. Environmental Protection Agency (the "**EPA**"), have either adopted legislation or regulations, or are separately considering the adoption of legislation or regulations, aimed at regulating the transmission, distribution, supply and storage of LNG, the discharge of ballast water and the discharge of bunkers as potential pollutants (OPA 90 applies to discharges of bunkers or cargoes).

The U.S. Clean Water Act (the "**Clean Water Act**") prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The Clean Water Act also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA discussed above. Pursuant to regulations promulgated by the EPA in the early 1970s, the discharge of sewage and effluent from properly functioning marine engines was exempted from the permit requirements of the National Pollution Discharge Elimination System. This exemption allowed vessels in U.S. ports to discharge certain substances, including ballast water, without obtaining a permit to do so. However, on March 30, 2005, a U.S. District Court for the Northern District of California granted summary judgment to certain environmental groups and U.S. states that had challenged the EPA regulations, arguing that the EPA exceeded its authority in promulgating them. On September 18, 2006, the U.S. District Court in that action issued an order invalidating the exemption in the EPA's regulations for all discharges incidental to the normal operation of a vessel as of September 30, 2008, and directing the EPA to develop a system for regulating all discharges from vessels by that date.

The EPA appealed this decision to the Ninth Circuit Court of Appeals, which on July 23, 2008, upheld the District Court's decision. In response, the EPA adopted a new Clean Water Act permit entitled the "Vessel General Permit." Effective February 6, 2009, container vessels (including all vessels of the type operated by the Group) operating as a means of transportation that discharge ballast water or certain other incidental discharges into U.S. waters must obtain coverage under the Vessel General Permit and comply with a range of best management practices, reporting, inspections and other requirements. The Vessel General Permit also incorporates Coast Guard requirements for ballast water management and exchange and includes specific technology-based requirements for vessels, including oil and petroleum

tankers. Under certain circumstances, the EPA may also require a discharger of ballast water or other incidental discharges to obtain an individual permit in lieu of coverage under the Vessel General Permit.

Since the EPA's adoption of the Vessel General Permit, several U.S. states have added specific requirements to the permit through the Clean Water Act section 401 certification process (which varies from state to state) and, in some cases, require vessels to install ballast water treatment technology to meet biological performance standards. The EPA may add requirements related to ballast water treatment technology to the Vessel General Permit requirements in the coming years to correspond to the IMO's adoption of similar requirements.

Since 2009, several environmental groups and industry associations filed challenges in U.S. federal court to the EPA's issuance of the Vessel General Permit. These cases have not yet been resolved.

Vessel security regulation

The ISPS was adopted by the IMO in December 2002 in the wake of heightened concern over worldwide terrorism and became effective on July 1, 2004. The objective of ISPS is to enhance maritime security by detecting security threats to ships and ports and by requiring the development of security plans and other measures designed to prevent such threats. Every vessel is required to show compliance by having a valid international ship security certificate on board. The United States implemented ISPS with the adoption of the Maritime Transportation Security Act of 2002 ("**MTSA**"), which requires vessels entering U.S. waters to obtain certification of plans to respond to emergency incidents there, including identification of persons authorized to implement the plans. Each of the existing vessels in the Group's fleet currently complies with the requirements of ISPS and MTSA.

Inspection by Classification Societies

Every seagoing merchant vessel must be "classed" by a classification society. The classification society certifies that the vessel is "in class," signifying that the vessel has been built and is being maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of the flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

For maintenance of the classification, regular surveys of hull and machinery, including the electrical plant, safety equipment, communication equipment and any special equipment classed, are required to be performed as follows:

- annual surveys for seagoing ships, which are conducted for the hull and the machinery, including the electrical plant, safety equipment, communication equipment and, where applicable, for special equipment classed, at intervals of 12 months plus or minus three months from the date of commencement of the class period indicated in the certificate;
- intermediate surveys, being more extensive surveys than annual surveys, of the vessel's structure and equipment, are conducted in conjunction with the second or third annual survey;
- special surveys are carried out for the ship's hull and the machinery, including the electrical plant, safety equipment, communications equipment and for any special equipment classed, at five yearly intervals from the vessel's certification;
- continuous surveys performed at an owner's application are required for class renewal. These surveys may be split according to an agreed schedule to be carried out over the entire period of the class certificate. It is common for this process to be applied to the vessel's machinery, known as a continuous machinery survey, and is adopted on all of the vessels within the Group's owned fleet. All areas subject to survey as defined by the classification society are required to be surveyed at least once per five-year class period, unless shorter intervals between surveys are prescribed;
- docking surveys are required to be held twice within the five-year survey cycle, with a maximum of 36 months between inspections, for survey of the underwater parts and for repairs related to inspections. An in-water survey may be permitted in lieu of a drydocking for the intermediate survey, although the vessel must carry out a drydocking in conjunction with a special survey; and
- conditions of class may be issued in case the surveyor during any survey of the ship discovers any defects, and these defects are safe for the vessel to continue in service without an immediate repair. Conditions of class will require the defect to be rectified by the ship owner within prescribed time limits.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The selected consolidated financial information as of and for the fiscal years ended December 31, 2009, December 31, 2008, and December 31, 2007 has been derived from the Group's audited consolidated financial statements included in this Prospectus. The audited consolidated financial statements for the Group as of and for the fiscal years ended December 31, 2009, December 31, 2008, and December 31, 2007 included in this Prospectus have been prepared in accordance with IFRS, which includes International Accounting Standards and Interpretations issued by the International Accounting Standards Board, and have been audited by Moore Stephens LLP, the Group's independent auditors, who are members of the Institute of Chartered Accountants in England and Wales. The selected consolidated financial information as of and for the six-month periods ended June 30, 2010 and June 30, 2009 has been derived from the Group's unaudited consolidated financial statements included in this Prospectus. The unaudited consolidated financial statements for the Group as of and for the six-month period ended June 30, 2010, have been prepared on the same basis as Sovcomflot's audited consolidated financial statements and in accordance with IAS 34 and have been reviewed by Moore Stephens LLP. The Group's results for the six-month period ended June 30, 2009, have been included in the interim review report for the unaudited consolidated financial statements for the Group as of and for the six-month period ended June 30, 2010, for comparative purposes only. The results for any interim period are not necessarily indicative of the results that may be expected for a full year.

The selected financial and operating information set forth below should be read in conjunction with "Operating and Financial Review" included elsewhere in this Prospectus and Sovcomflot's financial statements and the notes to those financial statements included in this Prospectus.

Selected Consolidated Income Statements

	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
	(in thousands of U.S. dollars)				
Freight and hire receivable	678,454	611,919	1,222,415	1,634,078	1,242,715
Voyage expenses and commissions	(181,964)	(120,726)	(290,101)	(397,162)	(266,692)
Time-charter equivalent revenues	496,490	491,193	932,314	1,236,916	976,023
Direct operating expenses					
Vessels' running costs	(153,832)	(141,191)	(287,934)	(274,964)	(236,647)
Charter hire payments	(7,372)	(7,005)	(14,112)	(21,014)	(12,539)
Vessels' drydock cost amortization	(20,019)	(21,020)	(42,512)	(41,104)	(41,774)
	(181,223)	(169,216)	(344,558)	(337,082)	(290,960)
Profit on vessels' trading	315,267	321,977	587,756	899,834	685,063
Other operating expenses					
Depreciation and amortization	(117,459)	(114,065)	(226,500)	(242,872)	(141,449)
Bad and doubtful debts	(139)	22	(158)	(784)	(576)
General and administrative expenses	(42,550)	(37,166)	(80,130)	(103,253)	(84,851)
Total other operating expenses	(160,148)	(151,209)	(306,788)	(346,909)	(226,876)
Profit from vessels' operations	155,119	170,768	280,968	552,925	458,187
Reversal/(provision) for impairment of tonnage under construction	—	(950)	13,964	(17,813)	—
Reversal/(provision) of onerous contract	—	(1,050)	22,069	(40,687)	—
(Loss)/gain on sale of assets	3,987	(2,442)	(2,395)	26,420	120,825
Gain on disposal of investments	—	141	406	190	2,588
Net other operating income	3,676	4,819	8,983	10,829	10,927
Share of (losses)/gains in associated undertakings	(434)	1,131	(3,375)	2,009	(1,354)
Operating profit	162,348	172,417	320,620	533,873	591,173
Other (expenses)/income					
Interest expense	(50,617)	(47,803)	(102,825)	(104,102)	(108,834)
Bank and other interest receivable	8,249	6,392	14,718	16,800	18,836
Other non-operating (expenses)/income	2,476	(2,196)	(1,563)	30,907	(4,710)
Gain/(loss) on hedging instruments	(1,558)	2,961	3,349	(5,418)	(1,814)
Gain/(loss) on derivative financial instruments held for trading	(7,805)	9,568	7,881	(36,857)	(4,432)
Loss on available-for-sale investments	—	—	—	(1,061)	—
Impairment of goodwill	—	(3,074)	(3,074)	(5,932)	—
Differences on foreign exchange	(932)	(10,677)	(6,263)	(16,657)	3,107
Net other expenses	(50,187)	(44,829)	(87,777)	(122,320)	(97,847)
Profit before income taxes	112,161	127,588	232,843	411,553	493,326
Income taxes	(939)	(10,785)	(16,005)	(5,313)	(22,485)
Profit for the period	111,222	116,803	216,838	406,240	470,841
Attributable to:					
Owners of the parent	107,053	107,863	202,921	340,680	391,009
Minority interest	4,169	8,940	13,917	65,560	79,832

Selected Consolidated Statements of Financial Position

	As of June 30,		As of December 31,		
	2010	2009	2009	2008	2007
	(in thousands of U.S. dollars)				
Assets					
Non-current assets					
Fleet	4,946,275	4,402,755	4,766,487	4,210,107	3,640,147
Tonnage under construction	347,109	734,203	506,405	880,079	983,142
Intangible assets	22,469	22,835	25,654	28,663	39,598
Finance lease receivables	71,748	30,379	69,692	—	—
Other non-current assets	67,888	67,071	65,366	67,223	59,481
	5,455,489	5,257,243	5,433,604	5,186,072	4,722,368
Current assets					
Inventories	49,107	38,291	48,127	33,268	44,356
Trade and other receivables	251,604	173,920	212,903	193,716	179,431
Other current assets	6,620	8,291	5,865	12,562	13,096
Cash and cash equivalents	400,413	334,050	335,695	298,119	293,933
	707,744	554,552	602,590	537,665	530,816
Non-current assets held for sale	—	—	31,446	3,259	21,458
Total current assets	707,744	554,552	634,036	540,924	552,274
Total assets	6,163,233	5,811,795	6,067,640	5,726,996	5,274,642
Equity and liabilities					
Capital and reserves					
Share capital	405,012	405,012	405,012	405,012	405,012
Reserves	2,504,146	2,343,880	2,466,314	2,062,677	1,880,330
Equity attributable to the owners of the parent	2,909,158	2,748,892	2,871,326	2,467,689	2,285,342
Minority interest	203,226	221,446	203,568	349,274	437,148
Total equity	3,112,384	2,970,338	3,074,894	2,816,963	2,722,490
Non-current liabilities					
Secured bank loans	2,406,144	2,111,099	2,334,698	2,087,321	2,102,982
Finance lease liabilities	13,787	104,666	57,732	110,444	17,348
Derivative financial instruments	101,235	65,171	57,959	137,688	37,569
Other non-current liabilities	17,373	53,573	26,023	58,350	37,881
	2,538,539	2,334,509	2,476,412	2,393,803	2,195,780
Current liabilities					
Trade and other payables	206,791	208,353	175,987	171,103	181,873
Secured bank loans	161,285	202,237	196,878	207,065	151,871
Finance lease liabilities	48,365	13,265	54,099	12,251	1,300
Other current liabilities	95,869	83,093	89,370	125,811	21,328
	512,310	506,948	516,334	516,230	356,372
Total equity and liabilities	6,163,233	5,811,795	6,067,640	5,726,996	5,274,642

Selected Consolidated Cash Flow Statements

	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
	(in thousands of U.S. dollars)				
Operating activities					
Cash received from freights and hire of vessels	648,310	633,760	1,246,178	1,629,702	1,230,607
Other cash receipts	14,110	16,202	42,632	39,808	42,340
Cash payments for voyage and running costs	(346,552)	(267,068)	(613,316)	(702,009)	(534,609)
Other cash payments	(55,636)	(54,679)	(145,034)	(118,672)	(107,297)
Cash generated from operations	260,232	328,215	530,460	848,829	631,041
Interest received	1,572	3,948	7,138	24,761	15,312
Taxation paid	(7,587)	(15,192)	(23,607)	(20,073)	(33,325)
Net cash inflow from operating activities	254,217	316,971	513,991	853,517	613,028
Investing activities					
Acquisition of investments	—	—	177	(1,685)	(3,839)
Acquisition of shares in subsidiary	—	—	—	(101,921)	—
Acquisition of subsidiary net of cash acquired	(838)	—	(31,961)	—	—
Acquisition of joint ventures net of cash acquired	—	—	(7,256)	—	—
Proceeds from sale of investments	—	495	901	450	3,399
Expenditure on fleet	(2,181)	(7,051)	(9,652)	(4,393)	(6,159)
Acquisition of vessel	—	—	(20,011)	—	—
Expenditure on drydocking	(11,710)	(23,287)	(34,130)	(34,873)	(31,770)
Expenditure on tonnage under construction	(195,181)	(191,603)	(360,366)	(629,024)	(863,623)
Purchase of other fixed assets	(7,431)	(5,352)	(14,107)	(21,110)	(20,860)
Proceeds on sale of vessels	49,514	11,122	11,122	49,644	238,391
Proceeds on sale of other fixed assets	321	180	180	6,634	—
Capital element received on finance leases	458	010	1,493	—	—
Interest received on finance leases	5,436	080	3,005	—	—
Buy back of shares	(1,680)	(30,421)	(34,287)	—	—
Decrease/(increase) in term deposits	21	3,209	5,568	(6,446)	—
Other receipts	—	—	—	40,017	1,367
Net cash outflow from investing activities	(163,271)	(242,618)	(489,324)	(702,707)	(683,094)
Financing activities					
Loans drawn down	146,500	98,103	368,063	502,490	1,240,299
Repayment of loans	(111,758)	(79,653)	(204,198)	(462,139)	(1,043,122)
Financing costs	(637)	(1,585)	(3,151)	(2,186)	(3,818)
Proceeds from the termination of hedging instruments	—	—	—	559	1,812
Capital element of finance leases	(6,294)	(4,764)	(10,862)	(13,652)	(1,358)
Interest paid on loans	(47,085)	(41,807)	(92,936)	(96,576)	(108,185)
Interest paid on finance leases	(3,560)	(3,342)	(7,090)	(7,728)	(1,334)
Dividends paid	—	(2,573)	(35,314)	(49,633)	(22,879)
Net cash inflow/(outflow) from financing activities	(22,834)	(35,621)	14,512	(128,865)	61,415
Increase/(decrease) in cash and cash equivalents	68,112	38,732	39,179	21,945	(8,651)
Cash and cash equivalents at beginning of period	335,695	298,119	298,119	293,933	302,584
Effect of exchange rate changes on cash and cash equivalents	(3,394)	(2,801)	(1,603)	(17,759)	—
Cash and cash equivalents at end of period	400,413	334,050	335,695	298,119	293,933

Other Financial and Operating Data

	As of June 30,		As of December 31,		
	2010	2009	2009	2008	2007
	(in thousands of U.S. dollars)				
EBITDA[(1)]	292,007	304,084	589,962	782,831	766,547
Adjusted EBITDA[(1)]	292,597	305,853	549,980	836,901	641,410
Ratio of net debt/capitalization[(2)]	41.7%	41.4%	42.9%	42.9%	42.1%
Total voyage days for fleet[(3)]	24,093	22,238	46,382	44,906	43,521
Total time-charter days for fleet	14,489	14,392	29,309	29,834	29,320
Total spot market days for fleet	9,604	7,846	17,073	15,072	14,200

(1) EBITDA represents earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA before other non-operating (expenses)/income, gain/(loss) on hedging instruments, gain/(loss) on derivative financial instruments held for trading, loss on available-for-sale investments, impairment of goodwill, differences on foreign exchange, reversal/(provision) for impairment of tonnage under construction, reversal/(provision) of onerous contract, (loss)/gain on sale of assets, gain on disposal of investments, net other operating income and share of (losses)/gains in associated undertakings.

EBITDA and Adjusted EBITDA are used as supplemental financial measures by management and by external users of our financial statements, such as investors, as discussed below:

— *Financial and operating performance*. EBITDA and Adjusted EBITDA assist the Group's management and security holders by increasing the comparability of the Group's fundamental performance from period to period and against the fundamental performance of other companies in the Group's industry that provide EBITDA or Adjusted EBITDA-based information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization (or other items in determining Adjusted EBITDA), which are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. Management of the Group believes that including EBITDA and Adjusted EBITDA as a financial and operating measure benefits security holders in (a) selecting between investing in the Group and other investment alternatives and (b) monitoring the Group's ongoing financial and operational strength and health in assessing the Group's ability to meet its debt obligations and whether to hold the Group's securities.

— *Liquidity*. EBITDA and Adjusted EBITDA allow the Group to assess the ability of assets to generate cash sufficient to service debt, pay dividends and undertake capital expenditures. By eliminating the cash flow effect resulting from the Group's existing capitalization and other items that may vary significantly from period to period, EBITDA and Adjusted EBITDA provide a consistent measure of the Group's ability to generate cash over the long term. The Group's management uses this information as a significant factor in determining (a) the Group's capitalization (including assessing how much debt to incur and whether changes to the capitalization should be made) and (b) whether to undertake material capital expenditures and how to finance them, all in light of the Group's dividend policy. Use of EBITDA and Adjusted EBITDA as liquidity measures also permits security holders to assess the fundamental ability of the Group's business to generate cash sufficient to meet cash needs, including repayments under debt instruments.

EBITDA and Adjusted EBITDA are not determined in accordance with IFRS or any other generally accepted accounting principles and should not be considered as an alternative to profit for the period, operating profit, profit from vessels' operations or any other measure of financial performance or liquidity presented in accordance with IFRS. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect profit for the period and operating income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies. See "Presentation of Financial and Other Data."

The following table reconciles the Group's historical consolidated EBITDA and Adjusted EBITDA to profit for the period:

	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
	(in thousands of U.S. dollars)				
Reconciliation of EBITDA and Adjusted EBITDA to Net profit					
Net profit	111,222	116,803	216,838	406,240	470,841
Income taxes	939	10,785	16,005	5,313	22,485
Interest expense, net of bank and other interest receivable	42,368	41,411	88,107	87,302	89,998
Depreciation and amortization	117,459	114,065	226,500	242,872	141,449
Vessels' drydock cost amortization	20,019	21,020	42,512	41,104	41,774
EBITDA	292,007	304,084	589,962	782,831	766,547
Other non-operating (expenses)/income	(2,476)	2,196	1,563	(30,907)	4,710
Gain/(loss) on hedging instruments	1,558	(2,961)	(3,349)	5,418	1,814
Gain/(loss) on derivative financial instruments held for trading	7,805	(9,568)	(7,881)	36,857	4,432
Loss on available-for-sale investments	—	—	—	1,061	—
Impairment of goodwill	—	3,074	3,074	5,932	—
Differences on foreign exchange	932	10,677	6,263	16,657	(3,107)
Reversal/(provision) for impairment of tonnage under construction	—	950	(13,964)	17,813	—
Reversal/(provision) of onerous contract	—	1,050	(22,069)	40,687	—
(Loss)/gain on sale of assets	(3,987)	2,442	2,395	(26,420)	(120,825)
Gain on disposal of investments		(141)	(406)	(190)	(2,588)
Net other operating income	(3,676)	(4,819)	(8,983)	(10,829)	(10,927)
Share of (losses)/gains in associated undertakings	434	(1,131)	3,375	(2,009)	1,354
Adjusted EBITDA	292,597	305,853	549,980	836,901	641,410

(2) Net debt includes secured bank loans and finance lease liabilities less cash and cash equivalents. Capitalization is the sum of net debt and total equity.

(3) Total voyage days for fleet are the total days the Group's vessels were in the Group's possession for the relevant period, net of off-hire days associated with major repairs, drydockings or special or intermediate surveys.

OPERATING AND FINANCIAL REVIEW

Overview

The Group is the largest shipping company in Russia and a leading provider of seaborne energy transportation services worldwide. The Group operates one of the largest and most modern tanker fleets in the world according to CRSL, and its core business is the worldwide seaborne transportation of crude oil and oil products for the world's leading oil and gas companies, with a particular focus on exporting Russian hydrocarbons. The Group specializes in the operation of ice-class vessels, which are designed to operate in and withstand harsh weather and ice conditions, primarily in the Baltic, Arctic and Far Eastern regions of Russia. According to CRSL, the Group is the largest owner of ice-class tankers in the world, based on DWT capacity as of October 1, 2010. As of June 30, 2010, the Group's fleet consisted of 144 owned and chartered-in vessels with a total capacity of approximately 10.5 million DWT, including 45 ice-class vessels (32.8% of the Group's fleet), and the Group had 10 offices worldwide. In 2009, the Group generated time-charter equivalent revenues of US$ 932.3 million and Adjusted EBITDA of US$ 550.0 million. For the six months ended June 30, 2010, the Group generated time-charter equivalent revenues of US$ 496.5 million and Adjusted EBITDA of US$ 292.6 million.

Sovcomflot is currently wholly owned by the Russian Federation and, in 2009, was included on the Russian Federation's list of strategic enterprises and organizations that share a privileged legal status under certain Russian laws (See "Business—Legal Considerations—Status as a Strategic Enterprise"). Given Sovcomflot's status as a state-owned shipping company and a strategic asset of the Russian Federation, the Group has a critical role in the development of Russia's energy sector, both as the leading energy shipping group in Russia and as an integral part of the Russian infrastructure for developing, transporting and exporting Russian hydrocarbons. Management considers the Group's operations to be, in effect, a seaborne extension of the Transneft pipeline infrastructure, which positions the Group to benefit from anticipated growth in Russian hydrocarbon exports. According to the IEA, Russia is currently the largest crude oil producing country in the world and possesses the world's largest natural gas reserves according to BP Statistical Review (see "Industry Overview—The Russian Oil and Gas Sector"). Management believes that the Group's reputation and position in the Russian market will continue to allow the Group to carry a significant portion of these oil and gas reserves that are exported by sea.

The Group's operations are organized into five business segments:

- *Crude oil transportation.* This segment transports mainly crude oil for the Group's customers worldwide. In 2009, this segment generated US$ 431.4 million (approximately 46.3%) of the Group's time-charter equivalent revenues. As of June 30, 2010, the Group's fleet in this segment consisted of 56 crude oil carriers (including four chartered-in vessels), representing a total capacity of approximately 7.0 million DWT.
- *Oil products transportation.* This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. In 2009, this segment generated US$ 324.1 million (approximately 34.8%) of the Group's time-charter equivalent revenues. As of June 30, 2010, the Group's fleet in this segment consisted of 36 petroleum product carriers (including one chartered-in vessel), 23 chemical and oil carriers and three asphalt and bitumen carriers, representing a total capacity of approximately 2.6 million DWT.
- *Gas transportation.* This segment primarily transports LNG and LPG. In 2009, this segment generated US$ 77.4 million (approximately 8.3%) of the Group's time-charter equivalent revenues. As of June 30, 2010, this segment's fleet consisted of six LNG carriers, four of which are jointly owned with third parties, and two LPG carriers, representing a total capacity of 453,000 DWT.
- *Offshore development services.* This segment contains the Group's shuttle tankers and specialized supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously. This segment also provides additional services to offshore development facilities, such as logistical support and the management of FSOs. In 2009, this segment generated US$ 81.3 million (approximately 8.7%) of the Group's time-charter equivalent revenues. As of June 30, 2010, this segment's fleet consisted of six shuttle tankers with a total capacity of approximately 485,000 DWT, as well as one ice breaking platform supply vessels.

- *Coal transportation and ancillary marine services.* This segment operates bulk cargo carriers, primarily for the transportation of coal, and provides a variety of logistical services to terminal operators, such as the operation of tug vessels, the management of onshore oil terminals and the provision of technical services to the Group's and third-party vessels. In 2009, this segment generated US$ 18.2 million (approximately 2.0%) of the Group's time-charter equivalent revenues. As of June 30, 2010, this segment's fleet consisted of four dry cargo carriers with a total capacity of approximately 98,000 DWT, as well as seven tugs.

Factors Affecting the Group's Results

Volatility in Tanker Charter Rates

The Group derives its revenue from the charter hires of the Group's owned and chartered-in vessels that are engaged in the spot market, time charter market or under contracts of affreightment. As a result, the Group's freight and hire receivables are heavily influenced by the charter rates in the segments in which the Group operates. Shipping charter rates, in turn, are closely tied to, and are significantly affected by developments in, the global economy and shifts in both the global and local markets. Historically, charter rates for tankers have been highly cyclical, experiencing volatility due to changes in the supply and demand for tanker capacity, which are influenced by a number of different factors, including the prices of crude oil and oil products, regional availability of refining capacity, global and regional economic conditions, the distance oil and oil products are to be moved by sea, changes in seaborne and other transportation patterns, the number of newbuilding deliveries and scrapping of tankers from the global fleet. See "Industry Overview—Crude Oil Shipping—Introduction" and "Industry Overview—Oil Products Shipping—Introduction" for information regarding average historical charter rates in certain of the segments in which the Group operates.

In 2008 and 2009, there was a significant adverse shift in the global economy, with operating businesses facing tightening credit, weakening demand for goods and services, deteriorating international liquidity conditions and declining markets. The cyclical nature of the tanker industry, including the most recent global economic downturn, has caused, and may continue to cause, significant declines in the charter rates realized by the Group's vessels. Moreover, because a substantial portion of the Group's costs are fixed in the short term, changes in the Group's charter rates have a significant effect on the Group's net profit. As a result, the volatility in shipping charter rates, including as a result of the recent global downturn, has caused, and may continue to cause, significant fluctuations in the Group's net profit and cash flows. Moreover, management of the Group expects the current oversupply of tankers in the global market (see "Risk Factors—Risks Relating to the Group's Industry—Overcapacity in the tanker industry may continue or increase in the future.") and depressed world freight rates to continue through 2012 as a result of a decline in worldwide cargo volumes and significant deliveries of newbuildings.

The Group's Vessel Employment Mix

The cyclicality and volatility in vessel charter rates described above affects the charter rates realized by the Group in the spot market, time charter market and under contracts of affreightment. See "—Volatility in Tanker Charter Rates." Increases and decreases in the charter rates in each of these markets generally tend to be correlated since they are both determined based on the supply and demand for tanker capacity. However, changes in charter rates in the spot market tend to have an effect on the Group's time charter equivalent revenues more quickly than changes in other markets. This is primarily because vessels operating under spot charters enter into charter agreements more frequently, so changes in such rates affect the Group's revenue and earnings more quickly. Similarly, since the charter rates under contracts of affreightment are often variable and based on spot market rates, the earnings of vessels operating under such contracts fluctuate more quickly as a result of this volatility. However, with respect to vessels operating under time charters, a shift in time charter rates does not immediately have an impact on such vessels, primarily because the time charter rates are fixed for longer periods of time.

As a result of these differences between spot charters, time charters and contracts of affreightment, the Group's vessel employment mix has a significant effect on the Group's exposure to volatility in charter rates, and consequently on the Group's revenue, earnings and cash flows. The Group actively manages its vessel employment mix with a strong focus on deriving a significant portion of revenue from fixed-rate time charters. Management considers the Group's fleet deployment to be well balanced, with 58.8% of its revenue for the year ended December 31, 2009 from fixed-rate time charters (50.2% for the six months ended June 30, 2010) and 41.2% of its revenue for the year ended December 31, 2009 from spot charters

and contracts of affreightment (49.8% for the six months ended June 30, 2010). Management of the Group believes that this vessel employment mix provides visibility in managing its fleet and stability in its operating cash flows, and management of the Group continually re-evaluates its employment mix based on current market conditions.

Market Value for the Group's Vessels

The market value of vessels fluctuates depending upon a number of factors, including general economic and market conditions affecting the industry, demand for vessel capacity, the number, type, age and size of vessels in the world fleet, the price of newbuildings (which is affected by availability of shipyard berths and financing), the level of vessel scrapping, the impact of any port congestion on fleet productivity, the cost of other modes of transportation and swings in the historically cyclical shipping industry. Moreover, the Group's fleet accounted for 78.6% of the Group's total assets as of December 31, 2009 and 80.3% of the Group's total assets as of June 30, 2010. Since the Group's fleet accounts for such a significant portion of the Group's assets, shifts in the market value of those assets can have a significant impact on the Group's financial statements.

For example, a decline in the market value of the Group's fleet can cause the Group to recognize losses if any of its vessels are sold or their values are impaired, as was the case in 2008 when the Group's management carried out an impairment review of the Group's fleet on a vessel-by-vessel basis using prevailing market values at that time, which led to the recognition of impairment losses of US$ 42.2 million in aggregate, as reflected in note 7 to the Audited Consolidated Financial Statements of the Group for the year ended December 31, 2008. Moreover, all of the Group's existing debt as of June 30, 2010 was secured by the value of certain of the Group's vessels. A decline in the market value of the Group's vessels could limit the amount of such assets available for the purposes of granting security and could prevent the Group from borrowing under certain existing secured credit facilities or may trigger a default under its covenants.

Developments in Interest Rates

The Group is exposed to interest rate movements through its variable rate financing arrangements, for instance, movements in LIBOR or the yield curve impact the market value of the Group's secured bank loans and the interest that the Group pays on such loans. As of June 30, 2010, the Group's total variable rate borrowings amounted to US$ 1,216 million. As a result, the Group is sensitive to changes in interest rates. Interest rates are sensitive to numerous factors not in the Group's control including, but not limited to, government and central bank monetary policy in the jurisdictions in which the Group operates. The Group uses different types of interest rate derivative instruments to manage interest rate exposure, such as options and swap contracts. As of June 30, 2010, the Group had an outstanding nominal amount of interest rate derivatives of US$ 1,240.3 million, compared to US$ 1,261.6 million as of December 31, 2009.

Critical Accounting Policies and Estimates

The preparation of the Group's financial statements and notes thereto requires that management make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Management bases its estimates on historical experience, changes in the business environment and on various other assumptions that management believes are reasonable under the circumstances.

While the Group provides information on the application of accounting principles being used in its financial statements in the notes thereto, the following paragraphs describe the critical accounting principles and estimates that management considers most important for understanding the Group's financial condition, results of operations and cash flows.

Fixed assets and depreciation

The Group's fleet, buildings and other fixed assets are recorded in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss. 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 or residual value, on a straight line basis over the anticipated useful life of the vessels. The residual value and useful life of each asset is reviewed at the end of each financial period, and, if expectations differ from previous estimates, the changes are accounted for prospectively in the income statement in the period of the change and in future periods.

For the Group's vessels, depreciation is calculated using an estimated useful life of 25 years for oil, oil product and chemical tankers; between 25 and 43 years for LNG and LPG carriers; and 25 years for multi-purpose dry cargo vessels and ice breaking supply vessels, in each case commencing from the date the vessels was originally delivered from the shipyard. In addition, management of the Group estimates the residual value of its vessels at the end of each accounting period. However, the estimates and assumptions used by the Group to make these determinations require considerable judgment and are based on, among other things, financial forecasts and industry trends and conditions at the end of each accounting period. As a result, the actual life and residual value of a vessel may be significantly different, with a shorter life or lower residual value resulting in an increase in the periodic depreciation and potentially resulting in an impairment loss.

Impairments

At the end of each financial reporting period, or at least annually in the case of goodwill, management of 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, management of 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.

As of December 31, 2008, the Group's management carried out an impairment review of the carrying amounts of the Group's fleet, on a vessel-by-vessel basis, which concluded that the recoverable amount of the Group's vessels was their market value, as assessed by management at the end of the period and supported by independent professional valuations. The review led to the recognition of impairment provisions against the construction contracts for four ice-class Aframax tankers and two Asphalt carriers in the amount of US$ 58.5 million. US$ 16.3 million of these impairment provisions were allocated against payments that had already been made under these contracts, and the balance of US$ 42.2 million was recognized as a provision for onerous contracts as of December 31, 2008.

Due to the decrease in charter rates during 2009 (see "Risk Factors—Risks Relating to the Group's Industry—Shipping charter rates, the demand for shipping services and the Group's profitability have been and may continue to be adversely affected by the global economic downturn and volatility in both the global and local markets"), the Group's management took the view that independent professional valuations reflect a short-term view of the global shipping market rather than the long-term earnings potential of the Group's fleet. Consequently, the Group's management conducted an impairment review as of December 31, 2009, and concluded that the recoverable amount was the higher of the market value of the vessels, as determined by independent professional valuations, and the vessels' future value in use. This review led to a partial release of the impairment provision made as of December 31, 2008, totaling US$ 36.0 million, of which US$ 14.0 million was allocated against payments that had already been made under the construction contracts for ice-class Aframax tankers and Asphalt carriers and US$ 22.1 million was allocated against the provision for onerous contracts that was recognized as of December 31, 2008. See notes 7, 8 and 24 to the audited consolidated financial statements for the Group as of and for the fiscal years ended December 31, 2009.

In determining the recoverable amount of any tangible or intangible asset, the Group's management makes certain assumptions regarding the future revenue from such asset, the appropriate discount rates to apply and the useful life of the relevant asset. These assumptions are subjective in nature and modifications to these assumptions in future periods may result in significant changes in the value of these assets, including future impairment charges.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profits for the period that are subject to the fiscal regulations of the countries in which Sovcomflot and its subsidiaries are incorporated. Deferred tax is recognized 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. 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.

As a result of the Group's global operations, the Group is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in order to determine the global amount of currently payable and deferred tax. Moreover, the tax treatment for many of the Group's transactions in the ordinary course of its business is uncertain, and different interpretations and estimates would result in a different level of income taxes, current and deferred, being recognized in the period. In addition, the relevant tax authorities are entitled to review Sovcomflot's and its subsidiaries' determinations of their annual taxable income for defined periods, and it is possible that some additional taxes may be assessed, mainly as a result of different assumptions and interpretations of the relevant tax laws. However, management of the Group believes there will be no significant modifications to the tax on profits recorded in the financial statements.

Retirement benefit costs

The Group operates a number of retirement benefit schemes for its shore-based staff and seafarers, including defined contribution retirement benefit plans, defined benefit retirement benefit plans and long-term service retirement benefit plans. The cost of providing benefits for defined benefit retirement benefit plans and long-term service retirement benefit plans is determined annually for each plan, using the projected unit credit method (also known as the accrued benefit method pro-rated on service, or the benefit/years of service method), whereby each year of service gives rise to an additional unit of benefit entitlement, and the total number of units determines the final benefit entitlement. The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation and unrecognized past service cost. The Group recognizes 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.

Determining employee benefits liabilities under the defined benefit plans and the long-term service retirement plans requires the use of assumptions and estimates, including actuarial projections, estimated rates of return on investments, discount rates, salary growth and other factors that can impact the costs and liabilities of the employee benefits. Fluctuations in the rates and other assumptions used for the actuarial valuations can materially affect the amounts determined.

Provisions

Provisions are recognized 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 Group's management's 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. These measurements are subject to numerous estimates and judgments on behalf of the Group's management, and certain circumstances and events can cause actual provision losses to vary from the assumptions used in estimating provisions, including general economic conditions, industry trends and deterioration of credit quality of counterparties. Changes in these estimates and judgments as a result of these or other factors could affect the Group's reported results.

Results of Operations

Six Months Ended June 30, 2009 and June 30, 2010

The following table sets forth the Group's results of operations for the periods indicated:

	Six months ended June 30,		
	2010	2009	Change
	(in thousands of U.S. dollars)		(%)
Freight and hire receivable	678,454	611,919	10.9
Voyage expenses and commissions	(181,964)	(120,726)	50.7
Time-charter equivalent revenues	496,490	491,193	1.1
Direct operating expenses			
Vessels' running costs	(153,832)	(141,191)	9.0
Charter hire payments	(7,372)	(7,005)	5.2
Vessels' drydock cost amortization	(20,019)	(21,020)	(4.8)
	(181,223)	(169,216)	7.1
Profit on vessels' trading	315,267	321,977	(2.1)
Other operating expenses			
Depreciation and amortization			
Vessels' depreciation	(102,646)	(93,361)	9.9
Vessels' impairment provision	(7,588)	(13,894)	(45.4)
Other depreciation	(2,541)	(2,278)	11.5
Investment property depreciation	(487)	(489)	(0.4)
Intangible assets' amortization	(4,197)	(4,043)	3.8
	(117,459)	(114,065)	3.0
Allowance for credit losses	(139)	22	—
General and administrative expenses	(42,550)	(37,166)	14.5
Total other operating expenses	(160,148)	(151,209)	5.9
Profit from vessels' operations	155,119	170,768	(9.2)
Reversal/(provision) for impairment of tonnage under construction	0	(950)	(100)
Reversal/(provision) of onerous contract	0	(1,050)	(100)
(Loss)/gain on sale of assets	3,987	(2,442)	—
Gain on disposal of investments	0	141	(100)
Net other operating income	3,676	4,819	(23.7)
Share of (losses)/gains in associated undertakings	(434)	1,131	—
Operating profit	162,348	172,417	(5.8)
Other (expenses)/income			
Interest expense	(50,617)	(47,803)	(5.9)
Bank and other interest receivable	8,249	6,392	29.1
Other non-operating (expenses)/income	2,476	(2,196)	(212.8)
Gain/(loss) on hedging instruments	(1,558)	2,961	—
Gain/(loss) on derivative financial instruments held for trading	(7,805)	9,568	—
Impairment of goodwill	0	(3,074)	(100)
Differences on foreign exchange	(932)	(10,677)	(91.3)
Net other expenses	(50,187)	(44,829)	(12.0)
Profit before income taxes	112,161	127,588	(12.1)
Income taxes	(939)	(10,785)	(91.3)
Profit for the period	111,222	116,803	(4.8)
Attributable to:			
Owners of the parent	107,053	107,863	(0.8)
Minority interest	4,169	8,940	53.4

Freight and hire receivable

Freight and hire receivable represents income from charter hires of the Group's owned and chartered-in vessels either engaged on the spot or time charter market.

The Group's freight and hire receivable increased from US$ 611.9 million for the six months ended June 30, 2009 to US$ 678.5 million for the six months ended June 30, 2010, an increase of US$ 66.6 million, or 10.9%. This increase was primarily due to the increase in vessel available days and voyage days by 5.7% and 8.4%, respectively, as well as the increase in the average deadweight tonnage operated by the Group during the period by 11.6%, partially offset by the fact that overall average market rates were lower during the six months ended June 30, 2010, compared to the average market rates during the same period in 2009, particularly in the spot markets that are more subject to volatility, due to the global economic downturn and the consequent reduction in demand for shipping services. The Group's exposure to the spot market increased from 35.3% of the total trading days in the six months ended June 30, 2009, to 39.9% of the total trading days in the six months ended June 30, 2010, primarily due to the delivery of new vessels and the chartering-in of an additional three vessels during the period, the majority of which were not engaged on time charters due to the low overall charter rates. Accordingly, income for vessels on time charter for the six months ended June 30, 2009, and for the six months ended June 30, 2010, represented 59.1% and 50.2%, respectively, of the total freight and hire receivable.

Voyage expenses and commissions

Voyage expenses are expenses that are unique to a particular voyage, which are paid by the Group under spot charter contracts. Voyage expenses, which would be paid by a charterer under a time charter contract, primarily consist of bunker fuel costs, port expenses, canal fees, cargo loading and unloading expenses, agency fees and commissions paid to brokers.

The Group's voyage expenses and commissions increased from US$ 120.7 million for the six months ended June 30, 2009 to US$ 182.0 million for the six months ended June 30, 2010, an increase of US$ 61.3 million, or 50.7%. This increase was primarily due to the increase in the Group's exposure to the spot market, as explained above, and the increase in fuel costs by approximately 60% during the six months ended June 30, 2010 caused by higher global prices for oil and oil products. Fuel costs for the six months ended June 30, 2010 represented 63.9% of voyage costs and commissions, compared to 49.5% for the comparative period in 2009.

Time-charter equivalent revenues

Time-charter equivalent revenues are net revenues calculated as freight and hire receivable less voyage expenses and commissions.

The Group's time-charter equivalent revenues were US$ 496.5 million for the six months ended June 30, 2010, compared to time-charter equivalent revenues of US$ 491.2 million for the six months ended June 30, 2009, an increase of US$ 5.3 million, or 1.1%, for the reasons described above.

Direct operating expenses

Direct operating expenses consist of vessels' running costs, charter hire payments and vessels' drydock cost amortization.

The Group's direct operating expenses increased from US$ 169.2 million for the six months ended June 30, 2009, to US$ 181.2 million for the six months ended June 30, 2010, an increase of US$ 12.0 million, or 7.1%. This increase was primarily due to an increase in vessels' running costs during the period, as further discussed below.

Vessels' running costs consist primarily of crew costs, repairs and maintenance, insurance, stores, lubricating oils, communication and overhead expense. Vessels' running costs increased from US$ 141.2 million for the six months ended June 30, 2009, to US$ 153.8 million for the six months ended June 30, 2010, an increase of US$ 12.6 million, or 9.0%. This increase was primarily due to an increase in crew costs, including crew remuneration by way of loyalty and performance bonuses and crew change expenses, and there was also an increase in ordinary course maintenance, resulting from an increase in the number of owned vessels in operation.

Charter hire payments represent payments for the chartering-in of vessels under time charter agreements. As of June 30, 2010, the Group was chartering in one Suezmax and three Aframax tankers. Charter hire payments increased from US$ 7.0 million for the six months ended June 30, 2009, to US$ 7.4 million for the six months ended June 30, 2010, an increase of US$ 0.4 million, or 5.2%. This increase was due to the chartering-in of three Aframax tankers in the second quarter of 2010, partially offset by a lower charter hire rate of the Suezmax tanker in 2010.

Vessels' drydock cost amortization is the periodic expense of the capitalized drydock costs during the period from the most recent drydock for each of the Group's vessels to the next. Vessels' drydock cost amortization decreased from US$ 21.0 million for the six months ended June 30, 2009, to US$ 20.0 million for the six months ended June 30, 2010, a decrease of US$ 1.0 million, or 4.8%. This decrease was primarily due to the disposal of six older vessels that typically have higher and more frequent drydock costs, combined with extensions to the anticipated drydock dates for certain vessels of the Group. Newer vessels, up to an age of 15 years old, are typically drydocked every five years, which coincides with the requirement for a special survey, whereas vessels over 15 years old are typically drydocked approximately every two and a half years. However, this decrease was partially offset by the delivery of 11 new, technologically advanced vessels and two specialized vessels since June 30, 2009. Generally, newer vessels have lower and less frequent drydock costs than older vessels, which results in lower drydock cost amortization; however, for highly specialized vessels, the drydock costs are significantly higher than for both older vessels and other new vessels, even if technologically advanced.

Profit on vessels' trading

Profit on vessels' trading represents the difference between time-charter equivalent revenues and direct operating expenses.

The Group recognized profit on vessels' trading of US$ 315.3 million for the six months ended June 30, 2010, compared to profit on vessels' trading of US$ 322.0 million for the six months ended June 30, 2009, a decrease of US$ 6.7 million, or 2.1%, since the increase in time-charter equivalent revenues was less than the increase in direct operating expenses, as described above.

Other operating expenses

Other operating expenses consist of vessels' depreciation, vessels' impairment provisions, other depreciation, investment property depreciation, intangible assets' amortization, allowance for credit losses and general and administrative expenses.

The Group's other operating expenses increased from US$ 151.2 million for the six months ended June 30, 2009, to US$ 160.1 million for the six months ended June 30, 2010, an increase of US$ 8.9 million, or 5.9%. This increase was primarily due to an increase in vessels' depreciation charge for the period and an increase in general and administrative expenses. The increase was alleviated by a decrease in vessels' impairment provided during the six-month period to June 30, 2010, compared to the same period to June 30, 2009.

Vessels' depreciation is the periodic amortization of the cost of the Group's vessels, less an estimated scrap value, calculated as the product of the lightweight tonnage of the Group's vessels and the price of metal per lightweight ton at the period end, over their useful economic lives. Vessels' depreciation increased from US$ 93.4 million for the six months ended June 30, 2009, to US$ 102.6 million for the six months ended June 30, 2010, an increase of US$ 9.2 million, or 9.9%. This increase was primarily due to the delivery/acquisition of new, technologically advanced vessels that have higher initial costs than the Group's older vessels, and the amortization costs for which are higher than those for older vessels. The increase in the depreciation charge was partially offset by an increase in the scrap value of the Group's vessels as of June 30, 2010, due to the increase in the price of metal per lightweight ton as of June 30, 2010, compared to June 30, 2009.

Vessels' impairment provision is the excess of the carrying value of the vessels, on a vessel-by-vessel basis, over their recoverable amount. Vessels' impairment provision decreased from US$ 13.9 million for the six months ended June 30, 2009, to US$ 7.6 million for the six months ended June 30, 2010, a decrease of US$ 6.3 million, or 45.3%. Vessels' impairment provision for the six months ended June 30, 2009 resulted from the impairment of eight of the Group's vessels. As of June 30, 2010, vessel values in certain segments, as assessed by independent shipbrokers, have increased, and charter hire rates have recovered slightly since 2009. However, the Group was required to further impair three of the vessels owned by Marpetrol in its coastal chemical fleet due to decreases in their values assessed by independent shipbrokers, and the Group also impaired one of the Group's Handysize product tankers following the signing of a memorandum of agreement for the sale of the vessel in March 2010.

Other depreciation is the periodic amortization of the cost of buildings and other fixed assets, including the costs of leasehold improvements, on a straight line basis, over their useful economic lives. Other depreciation increased from US$ 2.3 million for the six months ended June 30, 2009, to US$ 2.5 million for the six months ended June 30, 2010, an increase of US$ 0.2 million, or 11.5%. This increase was primarily due to additional expenditure on buildings and other fixed assets during the six months ended June 30, 2010, which increased their value and, consequently, their depreciation charge.

Investment property depreciation is the periodic amortization of the cost of buildings, held as investment property, over their useful economic lives. Investment property comprises buildings (or part of buildings), held by the Group to earn rentals rather than for administration purposes. There was no material change in investment property depreciation for the six months ended June 30, 2010 compared to the six months ended June 30, 2009.

Intangible assets' amortization is the periodic amortization of the fair value of time charter hire agreements acquired by the Group over the remaining terms of the charters. Intangible assets' amortization increased from US$ 4.0 million for the six months ended June 30, 2009, to US$ 4.2 million for the six months ended June 30, 2010, an increase of US$ 0.2 million, or 3.8%. This increase was due to the amortization of the fair value of the time charter agreements acquired on the acquisition by the Group of an additional 10% stake in each of the Group's joint ventures relating to the Sakhalin-2 Project and the Tangguh Project at the end of 2009.

Allowance for credit losses relate to allowances for irrecoverable amounts made against specific charterers' balances. Allowance for credit losses for the six months ended June 30, 2010 was US$ 0.14 million compared to a net recovery of US$ 0.02 million for the six months ended June 30, 2009.

General and administrative expenses consist of office operating expenses of the Group's subsidiaries, legal and professional fees and audit fees. General and administrative expenses increased from US$ 37.2 million for the six months ended June 30, 2009, to US$ 42.6 million for the six months ended June 30, 2010, an increase of US$ 5.4 million, or 14.5%. This increase was primarily due to the increase in employees' remuneration, which comprises salaries and discretionary bonuses, and the strengthening of the average exchange rate of the ruble against the U.S. dollar for the six months ended June 30, 2010, compared to the average exchange rate for the comparative period in 2009, which, from a U.S. dollar reporting perspective, increased the Group's general and administrative expenses that were denominated in Rubles.

Profit from vessels' operations

The Group recognized profit from vessels' operations of US$ 155.2 million for the six months ended June 30, 2010, compared to profit from vessels' operations of US$ 170.8 million for the six months ended June 30, 2009, a decrease of US$ 15.6 million, or 9.1%, for the reasons described above.

Reversal/(provision) for impairment of tonnage under construction

A reversal/(provision) for impairment of tonnage under construction may arise as a result of the assessment of contracts for the construction of vessels by the Group's management. A provision is made for the excess of the costs of meeting the Group's obligations under the newbuilding contracts over the economic benefits expected to be received from the newbuilding contract, which is the higher of the newbuilding contract's market value, as determined by independent professional brokers, and the vessel's future value in use once delivered. The provision is allocated first pro rata against payments made under each contract and recognized as a provision for impairment of tonnage under construction in the Group's income statement. The difference is recognized as a provision for onerous contracts. Impairments are reversed when, in subsequent periods, the economic benefits expected to be received from the contract are higher than the obligations under the contract, but are restricted to the total of provisions (net of reversals) made in previous periods on a contract-by-contract basis.

As of June 30, 2009, the Group made impairment provisions, which were allocated to payments made under contracts for the construction of two Asphalt carriers, since the economic benefits expected to be received from the construction contracts were lower than the Group's obligations under the contracts due to the decrease in charter rates during 2009. No provisions for, or reversals of, impairment of tonnage under construction were made as at June 30, 2010.

Reversal/(provision) of onerous contract

As of June 30, 2009, the Group made provisions against future payments to be made under contracts for the construction of two Asphalt carriers, since the economic benefits expected to be received from the construction contracts were lower than the Group's obligations under the contracts due to the decrease in charter rates during 2009. No provisions for onerous contracts, or reversals thereof, were made as at June 30, 2010.

(Loss)/gain on sale of assets

(Loss)/gain on sale of assets is the difference between the net disposal proceeds, if any, and the carrying value of the asset being disposed and consist of (losses)/gains on sale of vessels and other fixed assets.

The Group incurred a loss on sale of assets during the six months ended June 30, 2009 of US$ 2.4 million, compared to a gain of US$ 4.0 million for the six months ended June 30, 2010. The loss in the six months ended June 30, 2009, was due to losses incurred on the sale of two vessels during the period as a result of depressed market conditions, in the amounts of US$ 3.0 million and US$ 0.3 million, partially offset by a gain of US$ 0.9 million recognized on the sale of one other vessel during the same period. The gain in the six months ended June 30, 2010, was primarily due to gains recognized on the sale of four vessels during the period, in the amounts of US$ 2.4 million, US$ 1.0 million, US$ 0.9 million and US$ 0.1 million, partially offset by losses of US$ 1.1 million and US$ 0.1 million incurred on the sale of two vessels during the same period.

Gain on disposal of investments

Gain on disposal of investments is the difference between the net disposal proceeds, if any, and the carrying value of the investment being disposed and consist of (losses)/gains on sale of investments other than investment in subsidiaries, joint ventures and associates.

The Group's made a gain on disposal of investments of US$ 0.1 million for the six months ended June 30, 2009. No investments were disposed of for the six months ended June 30, 2010.

Net other operating income

Net other operating income represents income net of expenses derived from activities not related to the core operations of owning and operating vessels, such as ship management and the operation of oil terminals, and consists of gross revenues, cost of sales, administrative expenses and other operating income and expenses. The Group's net other operating income decreased from US$ 4.8 million for the six months ended June 30, 2009, to US$ 3.7 million for the six months ended June 30, 2010, a decrease of US$ 1.1 million, or 23.7%. This decrease was primarily due to the reduction in income from the management of vessels owned by third parties, primarily due to certain vessels leaving Unicom's ship management portfolio after June 30, 2009.

Share of (losses)/gains in associated undertakings

Share of (losses)/gains in associated undertakings reflects the Group's share in the profit or loss of its associated undertakings for the period.

The Group recognized a gain in associated undertakings of US$ 1.1 million for the six months ended June 30, 2009, compared to a loss of US$ 0.4 million for the six months ended June 30, 2010, a decrease of US$ 1.5 million, or 138.4%. This decrease was primarily due to the increase in finance lease interest expensed in one of the associated undertakings.

Operating profit

The Group recognized operating profit of US$ 162.3 million for the six months ended June 30, 2010, compared to operating profit of US$ 172.4 million for the six months ended June 30, 2009, a decrease of US$ 10.1 million, or 5.9%, for the reasons described above.

Net other (expenses)/income

Net other (expenses)/income consists of interest expense, bank and other interest receivable, other non-operating (expenses)/income, gain/(loss) on hedging instruments, gain/(loss) on derivative financial instruments held for trading, impairment of goodwill and differences on foreign exchange.

The Group's net other (expenses) income increased from US$ 44.8 million for the six months ended June 30, 2009 to US$ 50.2 million for the six months ended June 30, 2010, an increase of US$ 5.4 million, or 12.0%. This net increase was primarily due to the reasons explained below.

Interest expense consists of interest payable on secured bank loans and finance leases, payments under interest rate derivative financial instruments and effective interest arising from the amortization of

finance charges on secured bank loans. Interest expense increased from US$ 47.8 million for the six months ended June 30, 2009, to US$ 50.6 million for the six months ended June 30, 2010, an increase of US$ 2.8 million, or 5.9%. This increase was primarily due to the increase in payments made by the Group under interest rate derivative financial instruments. Under a number of interest rate swap option agreements ("**swaptions**") entered into by the Group in 2008, the counterparty banks had the options to receive fixed interest rate payments in 2009 and 2010, and such banks exercised their rights, resulting in an increase in the percentage of floating interest rate loans being hedged by the Group, thus reducing the Group's potential benefit from declining LIBOR rates during the period, which otherwise would have offset the increased interest expense.

Bank and other interest receivable consists mainly of interest receivable on bank deposits, finance leases where the Group acts as a lessor and effective interest arising from the fair value of charter contracts acquired by the Group. Bank and other interest receivable increased from US$ 6.4 million for the six months ended June 30, 2009 to US$ 8.2 million for the six months ended June 30, 2010, an increase of US$ 1.8 million, or 29.1%. This increase was primarily due to an increase in the number of vessels on finance lease to an associated undertaking, which resulted in a substantial increase in interest receivable on finance leases, partly offset by a reduction in interest receivable on bank deposits due to a general reduction in deposit interest rates.

Other non-operating (expenses)/income represents income and expenses not related to the operations of the Group and comprises mainly out-of-court settlement of claims and certain legal expenses linked to the claims filed in London (see "Business—Legal Considerations—Legal Proceedings") and charitable donations. Other non-operating expenses exceeded other non-operating income by US$ 2.2 million for the six months ended June 30, 2009, primarily due to legal expenses linked to the claims filed in London, compared to net other non-operating income of US$ 2.5 million for the six months ended June 30, 2010.

Gain/(loss) on hedging instruments represents the movement in fair values of derivative financial instruments employed by the Group that are designated by the Group as cash flow hedges but do not qualify for hedge accounting. The changes in fair values are directly linked to the movement in interest rate forward curves. The movement in the values resulted in a gain of US$ 3.0 million for the six months ended June 30, 2009, compared to a loss of US$ 1.6 million for the six months ended June 30, 2010, a downward movement of US$ 4.6 million, or 152.6%. This change in fair values was due to the downward shift of the interest rate forward curves.

Gain/(loss) on derivative financial instruments held for trading represents the movement in fair values of derivative financial instruments that are not designated as cash flow hedges. These financial instruments are primarily instruments entered into by Novoship to minimize exposure to interest rate fluctuations, but they are considered held for trading since management of the Group plans to dispose of them if interest rates increased sufficiently. The changes in fair values are directly linked to the movement in interest rate forward curves. The movement in the fair value resulted in a gain of US$ 9.6 million for the six months ended June 30, 2009, compared to a loss of US$ 7.8 million for the six months ended June 30, 2010, a downward movement of US$ 17.4 million, or 181.6%. This change in fair values was due to the downward shift of the interest rate forward curves.

Impairment of goodwill represents a reduction in the carrying value of goodwill generated on the acquisition of Marpetrol in 2006. Goodwill was fully impaired during the six months ended June 30, 2009, resulting in an impairment provision of US$ 3.1 million. This was due to a further decrease in the value in use of certain vessels to which the goodwill was allocated.

Differences on foreign exchange comprise exchange gains or losses on the settlement of balances in foreign currencies (currencies other than the U.S. dollar) and the translation of foreign currency bank deposits to U.S. dollars at the end of each reporting period. Fluctuations in exchange rates during the six months ended June 30, 2009, resulted in an exchange loss of US$ 10.7 million, primarily due to the exchange losses on ruble denominated balances and bank deposits. Significantly more stable exchange rates during the six months ended June 30, 2010, resulted in an exchange loss of US$ 1.0 million, a decrease in exchange losses of US$ 9.7 million, or 91.3%.

Profit before income taxes

The Group recognized profit before income taxes of US$ 112.2 million for the six months ended June 30, 2010, compared to profit before income taxes of US$ 127.6 million for the six months ended June 30, 2009, a decrease of US$ 15.4 million, or 12.1%, for the reasons described above.

Income taxes

Income taxes consist of current taxes and deferred taxes. Current taxes are mainly payable in the Russian Federation. Deferred tax arises mainly on the Group's Spanish operations.

The Group's income taxes decreased from US$ 10.8 million for the six months ended June 30, 2009 to US$ 0.9 million for the six months ended June 30, 2010, a decrease of US$ 9.9 million, or 91.3%. This decrease was due to the reduction in income taxes payable in the Russian Federation, as well as the release of deferred tax liabilities relating to vessels in the Spanish tonnage tax regime as of June 30, 2010, following the Group's reassessment of its tax position. The Group also realized a deferred tax credit arising from taxable losses on the Group's Spanish operations during the six months ended June 30, 2010.

Profit for the period

The Group recognized profit for the period of US$ 111.2 million for the six months ended June 30, 2010, compared to profit for the period of US$ 116.8 million for the six months ended June 30, 2009, a decrease of US$ 5.6 million, or 4.8%, for the reasons described above.

Years Ended December 31, 2008 and December 31, 2009

The following table sets forth the Group's results of operations for the periods indicated:

	Year ended December 31,		
	2009	2008	Change
	(in thousands of U.S. dollars)		(%)
Freight and hire receivable	1,222,415	1,634,078	(25.2)
Voyage expenses and commissions	(290,101)	(397,162)	(27.0)
Time-charter equivalent revenues	932,314	1,236,916	(24.6)
Direct operating expenses			
Vessels' running costs	287,934	274,964	4.7
Charter hire payments	14,112	21,014	(32.8)
Vessels' drydock cost amortization	42,512	41,104	3.4
	(344,558)	(337,082)	2.2
Profit on vessels' trading	587,756	899,834	(34.7)
Other operating expenses			
Depreciation and amortization			
Vessels' depreciation	187,907	178,188	5.5
Vessels' impairment provision	24,428	48,040	(49.2)
Other depreciation	5,112	7,608	(32.8)
Investment property depreciation	966	949	1.8
Intangible assets' amortization	8,087	8,087	0.0
	226,500	242,872	(6.7)
Bad and doubtful debts	158	784	(79.8)
General and administrative expenses	80,130	103,253	(22.4)
Total other operating expenses	306,788	346,909	(11.6)
Profit from vessels' operations	280,968	552,925	(49.2)
Reversal/(provision) for impairment of tonnage under construction	13,964	(17,813)	—
Reversal/(provision) of onerous contract	22,069	(40,687)	—
(Loss)/gain on sale of assets	(2,395)	26,420	—
Gain on disposal of investments	406	190	113.7
Net other operating income	8,983	10,829	(17.0)
Share of (losses)/gains in associated undertakings	(3,375)	2,009	—
Operating profit	320,620	533,873	(39.9)
Other (expenses)/income			
Interest expense	(102,825)	(104,102)	(1.2)
Bank and other interest receivable	14,718	16,800	(12.4)
Other non-operating (expenses)/income	(1,563)	30,907	—
Gain/(loss) on hedging instruments	3,349	(5,418)	—
Gain/(loss) on derivative financial instruments held for trading	7,881	(36,857)	—
Loss on available-for-sale investments	0	(1,061)	(100.0)
Impairment of goodwill	(3,074)	(5,932)	(48.2)
Differences on foreign exchange	(6,263)	(16,657)	(62.4)
Net other expenses	(87,777)	(122,320)	(28.2)
Profit before income taxes	232,843	411,553	(43.4)
Income taxes	(16,005)	(5,313)	201.2
Profit for the period	216,838	406,240	(46.6)
Attributable to:			
Owners of the parent	202,921	340,680	
Minority interest	13,917	65,560	

Freight and hire receivable

The Group's freight and hire receivable decreased from US$ 1,634.1 million in 2008 to US$ 1,222.4 million in 2009, a decrease of US$ 411.7 million, or 25.2%. This significant decrease was primarily due to substantial decreases in spot and time charter rates throughout 2009. Overall market rates were lower during the year ended December 31, 2009, compared to the same period in 2008, due to the global economic downturn and the consequent reduction in demand for shipping services. This decrease was partially offset by the increase in vessel available days and voyage days by 3.0% and 3.3%, respectively, as well as the increase in the average DWT capacity operated by the Group during the period by 5.2%. The Group's exposure to the spot market increased from 33.6% of the total trading days in the year ended December 31, 2008, to 36.8% of the voyage days in the year ended December 31, 2009, primarily due to the expiration of time charter agreements during 2009, the majority of which were not fixed on new time charters due to the low overall charter rates. New vessel deliveries in 2009 (including acquisitions of the Pacific Endurance and SCF SUEK) added 1,437 voyage days of which all were on time charters (367 related to specialized vessels operating on industrial projects). Income for vessels on time charter in 2008, and in 2009, represented 47.0% and 58.8%, respectively, of the Group's total freight and hire receivable.

Voyage expenses and commissions

The Group's voyage expenses and commissions decreased from US$ 397.2 million in 2008 to US$ 290.1 million in 2009, a decrease of US$ 107.1 million, or 27.0%. This significant decrease was primarily due to a decrease in the average price of fuel costs during 2009 by approximately 30%. The decrease was offset by the increase in the fleet trading on spot charters (17,073 spot days in 2009 compared to 15,072 spot days in 2008).

Time-charter equivalent revenues

The Group's time-charter equivalent revenues decreased from US$ 1,236.9 million in 2008 to US$ 932.3 million in 2009, a decrease of US$ 304.6 million, or 24.6%, for the reasons described above.

Direct operating expenses

The Group's direct operating expenses increased from US$ 337.1 million in 2008 to US$ 344.6 million in 2009, an increase of US$ 7.5 million, or 2.2%. This increase was primarily due to an increase in vessels' running costs partially offset by the decrease in charter hire payments, as discussed below.

Vessels' running costs increased from US$ 275.0 million in 2008 to US$ 287.9 million in 2009, an increase of US$ 13.0 million, or 4.7%. This increase was primarily due to the increase in crew remuneration by way of loyalty and performance bonuses, as well as the implementation of various crew incentive programs during 2008. The increase was partially offset by a decrease in repair and maintenance costs, primarily due to the sale of old, high-maintenance vessels in 2009 and certain cost reduction measures implemented by the Group as part of its ordinary course cost saving efforts, such as optimizing its inventory and spare parts systems and using skilled crewmembers onboard vessels to reduce the number of higher cost, shore-based contractors.

Charter hire payments decreased from US$ 21.0 million in 2008 to US$ 14.1 million in 2009, a decrease of US$ 6.9 million, or 32.8%. This decrease was due to the redelivery to their owners, in February and November 2008, of two of the three vessels that had previously been chartered in.

Vessels' drydock cost amortization increased from US$ 41.1 million in 2008 to US$ 42.5 million in 2009, an increase of US$ 1.4 million, or 3.4%. This increase was primarily due to increased DWT capacity in 2009 and late 2008, including the delivery of three specialized vessels (two of which were delivered in October and December of 2008) that have significantly higher drydock costs and the delivery of 10 new, technologically advanced vessels. The increase was partially offset by the disposal of three old, high-maintenance vessels and the extension of initially anticipated drydock dates for certain of the Group's fleet.

Profit on vessels' trading

The Group recognized profit on vessels' trading of US$ 587.8 million in 2009, compared to profit on vessels' trading of US$ 899.8 million in 2008, a decrease of US$ 312 million, or 34.7%, primarily due to the significant decrease in time-charter equivalent revenues, as described above.

Other operating expenses

The Group's other operating expenses decreased from US$ 346.9 million in 2008 to US$ 306.8 million in 2009, a decrease of US$ 40.1 million, or 11.6%. This decrease was primarily due to a decrease in depreciation and amortization and a decrease in general and administrative expenses, as described below.

Vessels' depreciation increased from US$ 178.2 million in 2008 to US$ 187.9 million in 2009, an increase of US$ 9.7 million, or 5.5%. This increase was primarily due to the delivery/acquisition of new, technologically advanced vessels, the purchase prices and amortization costs for which are higher than those for older vessels, in late 2008 and early 2009. The increase in the depreciation charge was partially offset by an increase in the scrap value of the Group's vessels as of December 31, 2009, due to the increase in the price of metal per lightweight ton as of December 31, 2009, compared to December 31, 2008.

Vessels' impairment provision decreased from US$ 48.0 million in 2008, to US$ 24.4 million in 2009, a decrease of US$ 23.6 million, or 49.2%. The significant reduction was primarily due to a partial release in 2009 of the vessels' impairment provision as of December 31, 2008. See "—Critical Accounting Policies and Estimates—Impairments."

Other depreciation decreased from US$ 7.6 million in 2008 to US$ 5.1 million in 2009, a decrease of US$ 2.5 million, or 32.8%. This decrease was primarily due to certain other fixed assets being fully depreciated in 2008. Other factors that affected the depreciation of other fixed assets during 2009 include disposals made both in 2008 and 2009, and the movement in exchange rates affecting the carrying value and depreciation change of certain Russian subsidiaries of the group.

Investment property depreciation increased from US$ 0.9 million in 2008 to US$ 1.0 million in 2009, an increase of 1.8%. This increase was primarily due to additions to investment property during 2009.

Intangible assets' amortization was unchanged at US$ 8.1 million in both 2008 and 2009. Intangible assets' amortization did not change as there were no changes to the cost of intangible assets.

Bad and doubtful debts decreased from US$ 0.8 million in 2008 to US$ 0.2 million in 2009, a decrease of US$ 0.6 million, or 79.8%. This decrease was primarily due to smaller provisions made against specific charterers' balances and the recovery of amounts provided for in previous periods.

General and administrative expenses decreased from US$ 103.3 million in 2008 to US$ 80.1 million in 2009, a decrease of US$ 23.1 million, or 22.4%. This decrease was primarily due to a reduction in administrative expenses following the closure of Novoship's UK operations in June 2008, and the weakening of the average exchange rate of the ruble against the U.S. dollar for the year ended December 31, 2009, compared to the average exchange rate for the year ended 2008, which, from a U.S. dollar reporting perspective, decreased the Group's general and administrative expenses that were denominated in Rubles. These factors were partially offset by a change in the Group's accounting treatment for bonuses paid to Executive Board members. Beginning in 2008, the Group began to accrue such bonuses, which required the Group to accrue 2008 bonuses and to pay (and expense) the actual bonuses paid in respect of 2007 in the Group's financial accounts for the year ended 2008.

Profit from vessels' operations

The Group recognized profit from vessels' operations of US$ 281.0 million in 2009, compared to profit from vessels' operations of US$ 552.9 million in 2008, a decrease of US$ 271.9 million, or 49.2%, for the reasons described above.

Reversal/(provision) for impairment of tonnage under construction

The Group recognized a reversal of impairment of tonnage under construction of US$ 14.0 million in 2009, after it had made a provision for impairment of tonnage under construction of US$ 17.8 million in 2008, an upward movement of US$ 31.8 million, or 178.7%. The provision for impairment of tonnage under construction as of December 31, 2008, relates to provisions totaling US$ 58.5 million made in respect of four ice-class Aframax tankers and two Asphalt carriers, of which US$ 17.8 million was allocated to payments made under the contracts for the construction of these vessels. The upward movement in 2009 was primarily due to the partial reversal of the provision made against the four ice-class Aframax tankers and a complete reversal of the provision made against the two Asphalt carriers. See "—Critical Accounting Policies and Estimates—Impairments."

Reversal/(provision) of onerous contract

The Group recognized a reversal of onerous contract of US$ 22.1 million in 2009, after it had made a provision for onerous contract of US$ 40.7 million in 2008, an upward movement of US$ 62.8 million, or 154.3%, for the reasons described above.

(Loss)/gain on sale of assets

The Group recognized a gain on sale of assets in 2008 of US$ 26.4 million, compared to a loss of US$ 2.4 million in 2009. During 2008, the Group disposed of three product tankers and two bulkers realizing a gain on disposal of the vessels of US$ 26.4 million. In 2009 the Group disposed of one bulker and one Panamax tanker realizing a loss on disposal of US$ 2.4 million, primarily as a result of depressed market conditions.

Gain on disposal of investments

The Group's made a gain on disposal of investments of US$ 0.2 million in 2008, compared with a gain of US$ 0.4 million in 2009, an increase of US$ 0.2 million, or 100%.

Net other operating income

The Group's net other operating income decreased from US$ 10.8 million in 2008 to US$ 9.0 million in 2009, a decrease of US$ 1.8 million, or 17.0%. This decrease was primarily due to a one-off gain in 2008, relating to the termination of a sale transaction involving the Group's passenger vessels, which were subsequently sold to another buyer in 2009.

Share of (losses)/gains in associated undertakings

The Group's share of (losses)/gains in associated undertakings decreased from a gain of US$ 2.0 million in 2008 to a loss of US$ 3.4 million in 2009, a decrease of US$ 5.4 million, or 270%. This decrease was primarily due to the loss incurred by Rosnefteflot resulting from interest payable on vessels held under finance leases acquired in 2009 and a provision for impairment recognized against the carrying value of those vessels.

Operating profit

The Group recognized operating profit of US$ 320.6 million in 2009, compared to operating profit of US$ 533.9 million in 2008, a decrease of US$ 213.3 million, or 40.0%, for the reasons described above.

Net other (expenses)/income

The Group's net other expenses decreased from US$ 122.3 million in 2008 to US$ 87.8 million in 2009, a decrease of US$ 34.5 million, or 28.2%. This increase was primarily due to the reasons explained below.

Interest expense decreased from US$ 104.1 million in 2008 to US$ 102.8 million in 2009, a decrease of US$ 1.3 million, or 1.2%. This decrease was due to the combination of (1) a significant decrease in the U.S. dollar London Inter Bank Offered Rate ("**US LIBOR**") that started at the end of 2008 and continued throughout 2009, was offset to a large extent, however, (2) by an increase in the Group's outstanding secured bank loans during the period from US$ 2,294.4 million as of December 31, 2008, to US$ 2,531.6 million as of December 31, 2009, and (3) the payments made under the Group's interest rate financial instrument arrangements, which hedge a significant proportion of the Group's floating rate debt and under which the Group is required to make fixed payments regardless of declines in underlying interest rates.

Bank and other interest receivable decreased from income of US$ 16.8 million in 2008 to income of US$ 14.7 million in 2009, a decrease of US$ 2.1 million, or 12.4%. This decrease was primarily due to the significant decrease in bank deposit interest rates generally during 2009, although this was partially offset by interest receivable on vessels chartered out under finance leases to an associated undertaking of US$ 4.9 million.

Other non-operating (expenses)/income decreased from income of US$ 30.9 million in 2008 to an expense of US$ 1.6 million in 2009, a decrease of US$ 32.5 million. This decrease was primarily due to the 2008 income resulting from the Group's out-of-court settlement of the 2005 Proceedings (see "Business—Legal Proceedings"). In addition to this settlement agreement, Clarkson, one of the defendants in these proceedings, reimbursed the Group in 2008 for certain commissions it had received from the Group as part of the events that led to these proceedings.

Gain/(loss) on hedging instruments moved from a loss of US$ 5.4 million in 2008 to a gain of US$ 3.3 million in 2009, an change of US$ 8.8 million. This change in fair values was due to a downward shift of the interest rate forward curves (expected future interest rates) in 2008 and an upward shift in 2009.

Gain/(loss) on derivative financial instruments held for trading moved from a loss of US$ 36.9 million in 2008 to a gain of US$ 7.9 million in 2009, a change of US$ 44.7 million, or 121.4%. During 2008, the Group entered into a number of derivative financial instruments, mainly interest rate swaptions that provided the counterparty banks with the right to enter into a number of interest rate swap agreements in 2009 and 2010, by closing out older derivative financial instruments. The loss of US$ 36.9 million in 2008 reflects the significant decrease in US LIBOR rates and the downward shift of the interest rate forward curves. In 2009, the situation improved slightly, with an upward shift in the interest rate forward curves resulting in a gain being recognized during the period.

The Group recognized a loss on available-for-sale investments of US$ 1.1 million in 2008, which represented an impairment made to the Group's shares in Rosneft, which were listed as available-for-sale investments. No impairments to available-for-sale investments were made in 2009.

The Group recognized an impairment of goodwill in 2008 of US$ 5.9 million, due to depressed market conditions and a decrease in the value in use of a number of vessels owned by Marpetrol to which the goodwill was allocated upon the Group's acquisition of Marpetrol. Goodwill was fully impaired in 2009, resulting in an impairment provision of US$ 3.1 million, due to a further decrease in the value in use of certain vessels that the goodwill was allocated to.

Differences on foreign exchange decreased from a loss of US$ 16.7 million in 2008 to a loss of US$ 6.3 million in 2009, a reduction in exchange loss of US$ 10.4 million, or 62.4%. The exchange losses were primarily generated by exchange losses on ruble denominated balances and bank deposits. The reduction was primarily due to a slower decline in the value of ruble compared to the U.S. dollar during 2009.

Profit before income taxes

The Group recognized profit before income taxes of US$ 232.8 million in 2009, compared to profit before income taxes of US$ 411.6 million in 2008, a reduction of US$ 178.8 million, or 43.4%, for the reasons described above.

Income taxes

The Group's income taxes increased from US$ 5.3 million in 2008 to US$ 16.0 million in 2009, an increase of US$ 10.7 million, or 201.2%. In 2008, upon certain of the Group's vessels entering the Spanish tonnage tax regime, significant deferred tax liabilities were released and credited to the income statement, thus reducing the total income taxes expensed in 2008. In 2009, income taxes payable in the Russian Federation decreased primarily due to decreased profits in the operation and sales of vessels under Russian flags.

Profit for the period

The Group recognized profit for the period of US$ 216.8 million in 2009, compared to profit for the period of US$ 406.2 million in 2008, a decrease of US$ 189.4 million, or 46.6%, for the reasons described above.

Years Ended December 31, 2007 and December 31, 2008

The following table sets forth the Group's results of operations for the periods indicated:

	Year ended 31 December		
	2008	2007	Change
	(in thousands of U.S. dollars)		(%)
Freight and hire receivable	1,634,078	1,242,715	31.5
Voyage expenses and commissions	(397,162)	(266,692)	48.9
Time-charter equivalent revenues	1,236,916	976,023	26.7
Direct operating expenses			
Vessels' running costs	274,964	236,647	16.2
Charter hire payments	21,014	12,539	67.6
Vessels' drydock cost amortization	41,104	41,774	(1.6)
	(337,082)	(290,960)	15.9
Profit on vessels' trading	899,834	685,063	31.4
Other operating expenses			
Depreciation and amortization			
Vessels' depreciation	178,188	133,178	33.8
Vessels' impairment provision	48,040	0	—
Other depreciation	7,608	5,247	45.0
Investment property depreciation	949	79	1,101.3
Reversal of impairment of investment property	0	(5,142)	(100)
Intangible assets' amortization	8,087	8,087	0.0
	242,872	141,449	71.7
Bad and doubtful debts	784	576	36.1
General and administrative expenses	103,253	84,851	21.7
Total other operating expenses	346,909	226,876	52.9
Profit from vessels' operations	552,925	458,187	20.7
Reversal/(provision) for impairment of tonnage under construction	(17,813)	0	
Reversal/(provision) of onerous contract	(40,687)	0	
(Loss)/gain on sale of assets	26,420	120,825	(78.1)
Gain on disposal of investments	190	2,588	(92.7)
Net other operating income	10,829	10,927	(0.9)
Share of (losses)/gains in associated undertakings	2,009	(1,354)	—
Operating profit	533,873	591,173	(9.7)
Other (expenses)/income			
Interest expense	(104,102)	(108,834)	(4.3)
Bank and other interest receivable	16,800	18,836	(10.8)
Other non-operating (expenses)/income	30,907	(4,710)	(756.2)
Gain/(loss) on hedging instruments	(5,418)	(1,814)	198.7
Gain/(loss) on derivative financial instruments held for trading	(36,857)	(4,432)	731.6
Loss on available-for-sale investments	(1,061)	0	—
Impairment of goodwill	(5,932)	0	—
Differences on foreign exchange	(16,657)	3,107	—
Net other expenses	(122,320)	(97,847)	25.0
Profit before income taxes	411,553	493,326	(16.6)
Income taxes	(5,313)	(22,485)	(76.4)
Profit for the period	406,240	470,841	(13.7)
Attributable to:			
Owners of the parent	340,680	391,009	
Minority interest	65,560	79,832	

Freight and hire receivable

The Group's freight and hire receivable increased from US$ 1,242.7 million in 2007 to US$ 1,634.1 million in 2008, an increase of US$ 391.4 million, or 31.5%. This increase was primarily due to the increase in charter rates during 2008, coupled with the increase in the size of the fleet both in numbers and in deadweight tonnage. The weighted average deadweight tonnage of the Group's fleet increased by 7.1% during 2008 due to new delivery of vessels, especially technologically advanced vessels with higher earning potential. Moreover, both the Group's vessel available days and voyage days increased by 3.2% in the year ended December 31, 2008 compared to the same period in 2007. At the same time, the Group's exposure to the spot market increased from 32.6% of the voyage days during the year ended December 30, 2007, to 33.6% of the voyage days during the year ended December 31, 2008. Income for vessels on time charters for the year ended December 31, 2007, and for the year ended December 31, 2008, represented 57.8% and 47.0%, respectively, of the Group's total freight and hire receivable.

Voyage expenses and commissions

The Group's voyage expenses and commissions increased from US$ 266.7 million in 2007 to US$ 397.2 million in 2008, an increase of US$ 130.5 million, or 48.9%. This increase was primarily due to the increase in the average price of fuel costs during 2008 in excess of 30%, combined with the Group's increased exposure to the spot market, which increased from 14,200 spot charter days during the year ended December 31, 2007 to 15,072 spot charter days during the year ended December 31, 2008, representing a 6.1% increase. Moreover, an increase in the number of the Group's vessels operating in the Primorsk area led to higher port costs for the Group.

Time-charter equivalent revenues

The Group's time-charter equivalent revenues increased from US$ 976.0 million in 2007 to US$ 1,236.9 million in 2008, an increase of US$ 260.9 million, or 26.7%, since the increase in voyage expenses and commissions was less than the increase in freight and hire receivable, for the reasons described above.

Direct operating expenses

The Group's direct operating expenses increased from US$ 291.0 million in 2007 to US$ 337.1 million in 2008, an increase of US$ 46.1 million, or 15.9%. This increase was primarily due to an increase in vessels' running costs and charter hire payments, as discussed below.

Vessels' running costs increased from US$ 236.6 million in 2007 to US$ 275.0 million in 2008, an increase of US$ 38.3 million, or 16.2%. This increase was primarily due to an increase in crew remuneration, comprising salaries and bonuses, as well as the implementation of various crew incentive programs in 2008 and the increase in the cost of lubricating oils.

Charter hire payments increased from US$ 12.5 million in 2007 to US$ 21.0 million in 2008, an increase of US$ 8.5 million, or 67.6%. This increase was primarily due to the effect of a Suezmax tanker that was chartered-in in September 2007 partially offset by the redelivery, to their owners, of another chartered-in Suezmax tanker in February 2008.

Vessels' drydock cost amortization decreased from US$ 41.8 million in 2007 to US$ 41.1 million in 2008, a decrease of US$ 0.7 million, or 1.6%. This decrease was primarily due to the disposal of five older vessels in 2008 that typically have higher drydock costs than newer vessels (except when compared to new specialized vessels whose drydock costs are significantly higher than older tankers). This decrease was partially offset by increased tonnage in 2008 through the delivery of 9 new, technologically advanced vessels (that typically have lower drydock costs than the older, disposed of vessels), as well 4 new, specialized vessels (that have significantly higher drydock costs than other Group vessels).

Profit on vessels' trading

The Group recognized profit on vessels' trading of US$ 899.8 million in 2008, compared to profit on vessels' trading of US$ 685.1 million in 2007, for the reasons described above.

Other operating expenses

The Group's other operating expenses increased from US$ 226.9 million in 2007 to US$ 346.9 million in 2008, an increase of US$ 120.0 million, or 52.9%. This increase was primarily due to a significant increase in depreciation and amortization and in general and administrative expenses, as discussed below.

Vessels' depreciation increased from US$ 133.2 million in 2007 to US$ 178.2 million in 2008, an increase of US$ 45.0 million, or 33.8%. This increase was primarily due to the delivery/acquisition of new, technologically advanced vessels, the purchase prices and amortization costs for which are higher than those for older vessels, in late 2007 and in 2008, combined with a decrease in the price of metal per lightweight ton as of December 31, 2008, compared to December 31, 2007.

Vessels' impairment provision was US$ 48.0 million in 2008, while no impairment provision was recognized in 2007. Following the substantial decrease in charter rates towards the end of 2008 and the lower vessel values as assessed by independent shipbrokers as of December 31, 2008, the Group's management impaired ten of the Group's vessels, mainly in the oil product transportation segment, including US$ 5.9 million for the passenger vessel disposed of by the Group in January 2009. See "—Critical Accounting Policies and Estimates—Impairments."

Other depreciation increased from US$ 5.2 million in 2007 to US$ 7.6 million in 2008, an increase of US$ 2.4 million, or 45.0%. This increase was primarily due to the acquisition of certain fixed assets and the completion of construction of certain buildings and other fixed assets in 2007 and 2008 and the depreciation thereof. The effect was partially offset by the transfer of certain buildings in Moscow to investment property at the end of 2007 following the Group's leasing out of such properties to Rosnefteflot.

Investment property depreciation increased from US$ 0.1 million in 2007 to US$ 0.9 million in 2008, an increase of US$ 0.8 million. This increase was primarily due to the transfer of certain buildings from other fixed assets to investment property at the end of 2007 and the reversal of an impairment provision made in a previous year against a building owned in Moscow, for the reasons discussed below.

Reversal of impairment of investment property of US$ 5.1 million in 2007, relates to a reversal of an impairment made in a previous year against the carrying value of a building owned in Moscow following a recovery in the property market in Russia.

Intangible assets' amortization was unchanged at US$ 8.1 million in both 2007 and 2008, since there were no changes to the cost of intangible assets.

Bad and doubtful debts increased from US$ 0.6 million in 2007 to US$ 0.8 million in 2008, an increase of US$ 0.2 million, or 36.1%. This increase was primarily due to additional provisions made against specific charterers and was partly offset by recovery of amounts provided for in previous years.

General and administrative expenses increased from US$ 84.9 million in 2007 to US$ 103.3 million in 2008, an increase of US$ 18.4 million, or 21.7%. This increase was primarily due to a change in the Group's accounting treatment of bonuses to members of the Executive Board. Beginning in 2008, the Group began to accrue such bonuses, which required the Group to accrue 2008 bonuses and to pay (and expense) the actual bonuses paid in respect of 2007 in the Group's financial accounts for the year ended 2008. General and administrative expenses also increased as a result of inflationary salaries and the introduction of performance motivation schemes, partially offset by a decrease in legal and professional fees.

Profit from vessels' operations

The Group recognized profit from vessels' operations of US$ 552.9 million in 2008, compared to profit from vessels' operations of US$ 458.2 million in 2007, an increase of US$ 94.7 million, or 20.7%, for the reasons described above.

Reversal/(provision) for impairment of tonnage under construction

The Group recognized a provision for impairment of tonnage under construction of US$ 17.8 million in 2008, and no provision or reversal was recognized in 2007. The provision for impairment of tonnage under construction as of December 31, 2008, related to provisions made in respect of four ice-class crude oil Aframax tankers and two Asphalt carriers totaling US$ 58.5 million of which US$ 17.8 million were allocated to payments made under the contracts for the construction of these vessels. The difference of

US$ 40.7 million was recognized as provisions for onerous contract. See "—Critical Accounting Policies and Estimates—Impairments."

Reversal/(provision) of onerous contract

The Group's reversal/(provision) of onerous contract was a provision of US$ 40.7 million in 2008, and no provision or reversal was recognized in 2007. The reason for the Group's provision for onerous contract made in 2008 is described above. See "—Critical Accounting Policies and Estimates—Impairments."

(Loss)/gain on sale of assets

The Group's (loss)/gain on sale of assets decreased from a gain of US$ 120.8 million in 2007 to a gain of US$ 26.4 million in 2008, a decrease of US$ 94.4 million, or 78.1%. In 2007, the Group disposed of six crude oil tankers, seven oil product tankers and five bulkers as part of its ongoing fleet renewal, realizing a gain of US$ 120.8 million. During 2008, the Group disposed of four product tankers and one bulker for the same reason and realized a gain of US$ 26.4 million.

Gain on disposal of investments

The Group's gain on disposal of investments decreased from US$ 2.6 million in 2007 to US$ 0.2 million in 2008, a decrease of US$ 2.4 million, or 92.7%. In 2007, the Group disposed of an associated undertaking, realizing a gain of US$ 2.6 million. In 2008, the Group disposed of its investment in Russian Federation bonds, realizing a gain of US$ 0.2 million.

Net other operating income

The Group's net other operating income decreased from US$ 10.9 million in 2007 to US$ 10.8 million in 2008, a decrease of US$ 0.1 million, or 0.9%.

Share of (losses)/gains in associated undertakings

The Group's share of (losses)/gains in associated undertakings increased from a loss of US$ 1.4 million in 2007 to a gain of US$ 2.0 million in 2008, an increase of US$ 3.4 million. This increase was primarily due to a substantial increase in business and profits of Rosnefteflot, relating to the operation of the oil terminal in Novorossysk (a Transneft terminal) where Rosnefteflot has a 25% shareholding. Moreover, certain of the Group's associated undertakings wrote off research costs in connection with an abandoned construction project for an LNG plant near St. Petersburg.

Operating profit

The Group recognized operating profit of US$ 533.9 million in 2008, compared to operating profit of US$ 591.2 million in 2007, a decrease of US$ 57.3 million, or 9.7%, for the reasons described above.

Net other (expenses)/income

The Group's net other expenses increased from US$ 97.8 million in 2007 to US$ 122.3 million in 2008, an increase of US$ 24.5 million, or 25.0%, for the reasons described below.

Interest expense decreased from US$ 108.8 million in 2007 to US$ 104.1 million in 2008, a decrease of US$ 4.7 million, or 4.3%. This decrease was primarily due to the significant decrease in US LIBOR that started at the beginning of 2008 and continued throughout the year. The effect of the declining US LIBOR was offset to a large extent, however, by interest payments made on two vessels accounted for as held under finance leases, an increase in the Group's outstanding secured bank loans during the period from US$ 2,254.9 million as of December 31, 2007, to US$ 2,294.4 million as of December 31, 2008, as well as the payments made under the Group's interest rate financial instrument arrangements, which hedge a significant proportion of the Group's floating rate debt and under which the Group is required to make fixed payments regardless of declines in underlying interest rates.

Bank and other interest receivable decreased from income of US$ 18.8 million in 2007 to income of US$ 16.8 million in 2008, a decrease of US$ 2.0 million, or 10.8%. This decrease was primarily due to the significant decrease in bank deposit interest rates generally during 2008.

Other non-operating (expenses)/income increased from an expense of US$ 4.7 million in 2007 to income of US$ 30.9 million in 2008, an increase of US$ 35.6 million, or 757.4%. This increase was

primarily due to the 2008 income resulting from the Group's out-of-court settlement of the 2005 Proceedings (see "Business—Legal Proceedings"). In addition to this settlement agreement, Clarkson, one of the defendants in these proceedings, reimbursed the Group in 2008 for certain commissions it had received from the Group as part of the events that led to these proceedings.

Gain/(loss) on hedging instruments increased from a loss of US$ 1.8 million in 2007 to a loss of US$ 5.4 million in 2008, an increase of US$ 3.6 million, or 200%. This further loss was primarily due to a downward shift of the interest rate forward curves (expected future interest rates) in 2008.

Gain/(loss) on derivative financial instruments held for trading increased from a loss of US$ 4.4 million in 2007 to a loss of US$ 36.9 million in 2008, a decrease of US$ 32.5 million, or 738.6%. During 2008, the Group entered into a number of derivative financial instruments, mainly interest rate swaptions that provided the counterparty banks with the right to enter into a number of interest rate swap agreements in 2009 and 2010, by closing out older derivative financial instruments. The loss of US$ 36.9 million in 2008 reflects the significant decrease in US LIBOR rates and the downward shift of the interest rate forward curves.

The Group recognized a loss on available-for-sale investments of US$ 1.1 million in 2008, which represented an impairment made to the Group's shares in Rosneft, which were listed as available-for-sale investments. No impairments to available-for-sale investments were made in 2007.

The Group recognized an impairment of goodwill in 2008 of US$ 5.9 million, due to depressed market conditions and a decrease in the value in use of a number of vessels owned by Marpetrol to which the goodwill was allocated upon the Group's acquisition of Marpetrol. No such impairment was required in 2007.

Differences on foreign exchange decreased from gain of US$ 3.1 million in 2007 to a loss of US$ 16.7 million in 2008, an overall movement in exchange differences of US$ 19.8 million. The differences on foreign exchange in 2008 were primarily generated by exchange losses on ruble denominated balances and bank deposits reflecting a weaker ruble against the U.S. dollar by approximately 20% compared to the 2007 year-end position. The gain in 2007 was primarily due to a more stable U.S. dollar / ruble exchange rate during 2007 reflecting the a stronger ruble against the U.S. dollar by approximately 7% compared to the 2006 year-end position.

Profit before income taxes

The Group recognized profit before income taxes of US$ 411.6 million in 2008, compared to profit before income taxes of US$ 493.3 million in 2007, a decrease of US$ 81.7 million, or 16.6%, for the reasons described above.

Income taxes

The Group's income taxes decreased from US$ 22.5 million in 2007 to US$ 5.3 million in 2008, a decrease of US$ 17.2 million, or 76.4%. This decrease was primarily due to the release of deferred tax liabilities relating to vessels that entered the Spanish tonnage tax regime in February 2008 and the reduction in income taxes payable in the Russian Federation due to the disposal of certain vessels owned directly by Novoship that are taxable in the Russian Federation. Income taxes payable by the Group in the Russian Federation decreased in 2007, primarily due to the disposal of a number of vessels in operation that were taxable under Russian taxation rules.

Profit for the period

The Group recognized profit for the period of US$ 406.2 million in 2008, compared to profit for the period of US$ 470.8 million in 2007, a decrease of US$ 64.6 million, or 13.7%, for the reasons described above.

Liquidity and Capital Resources

Overview

The Group's liquidity requirements relate to funding working capital (including vessel maintenance expenses), capital expenditures (including funding investments in vessels), debt service and maintaining cash reserves. Net cash flows from operations are the main source of liquidity for the Group. Additional sources include additional indebtedness and issuances of debt securities such as the Notes. The Group

operates in a capital-intensive industry requiring substantial investment in vessels. Capital expenditures are funded primarily from the Group's internally generated funds and borrowings, although as part of the Group's aim to diversify its financing sources, the Group may consider debt and equity issuances in the international capital markets. After funding its working capital, the Group's primary use of cash is for capital expenditures, and in particular newbuildings. Management of the Group expects to continue to apply cash to regular debt servicing and repayment as well as to consider debt prepayments as opportunities arise.

Management believes that the Group's financial resources are sufficient to meet its liquidity needs and that its existing capital resources, along with available sources of external financing that include the proceeds of this offering, will be sufficient to meet its currently anticipated capital expenditures.

Cash Flows

The following table sets forth a summary of the Group's consolidated cash flows for the periods indicated:

	Six Months Ended June 30,		Year Ended December 31,		
	2010	**2009**	**2009**	**2008**	**2007**
	(in thousands of U.S. dollars)				
Net cash inflow from operating activities	254,217	316,971	513,991	853,517	613,028
Net cash outflow from investing activities	(163,271)	(242,618)	(489,324)	(702,707)	(683,094)
Net cash inflow/(outflow) from financing activities	(22,834)	(35,621)	14,512	(128,865)	61,415
Increase/(decrease) in cash and cash equivalents	68,112	38,732	39,179	21,945	(8,651)
Cash and cash equivalents at beginning of period	335,695	298,119	298,119	293,933	302,584
Effect of exchange rate changes on cash and cash equivalents	(3,394)	(2,801)	(1,603)	(17,759)	—
Cash and cash equivalents at end of period	400,413	334,050	335,695	298,119	293,933

Operating activities

Net cash inflow from operating activities was US$ 613.0 million in 2007, US$ 853.5 million in 2008 and US$ 514.0 million in 2009. Net cash inflow from operating activities was US$ 317.0 million for the six months ended June 30, 2009 and US$ 254.2 million for the six months ended June 30, 2010. The changes in net cash flow from operating activities are due to the factors discussed under "—Results of Operations."

Investing activities

Net cash outflow from investing activities was US$ 683.1 million in 2007, US$ 702.7 million in 2008 and US$ 489.3 million in 2009. The increase of 2.9% in net cash outflow from investing activities between 2007 and 2008 was primarily due to a decrease in the Group's income from vessel sales from US$ 238.4 million in 2007 to US$ 49.6 million in 2008 as a result of a reduction in the number of vessels sold by the Group to five vessels in 2008, compared with 18 vessels in 2007, as well as the expenditure by the Group of US$ 101.9 million in 2008 on the acquisition of 29,625,765 ordinary shares in Novoship from minority shareholders. The decrease of 30.4% in net cash outflow from investing activities between 2008 and 2009 was primarily due to a significant reduction in expenditure on vessels under construction in 2009 to US$ 360.4 million, from US$ 629.0 million in 2008, partially offset by the acquisition of a subsidiary, which owns one of the Group's ice-class supply vessels, for US$ 32.0 million, as well as the expenditure by Novoship of an aggregate of US$ 34.3 million in 2009 on the buy-back in two tranches of a total of 54,082,097 preference shares from minority shareholders.

Net cash outflow from investing activities was US$ 242.6 million for the six months ended June 30, 2009 and US$ 163.3 million for the six months ended June 30, 2010. The decrease of 32.7% in net cash outflow from investing activities was primarily due to an increase in the Group's income from vessel sales from US$ 11.1 million in the six months ended June 30, 2009, to US$ 49.5 million in the six months ended June 30, 2010, as a result of an increase in the number of vessels sold by the Group in the six months ended June 30, 2010, to six vessels, compared with three vessels sold in the six months ended June 30, 2009, as

well as the expenditure by Novoship of US$ 30.4 million in the six months ended June 30, 2009, on the buy-back of 48,719,980 preference shares from minority shareholders.

Financing activities

Net cash inflow/(outflow) from financing activities was US$ 61.4 million in 2007, negative US$ 128.9 million in 2008 and US$ 14.5 million in 2009. The downward movement of 309.9% in net cash inflow/(outflow) from financing activities between 2007 and 2008 was primarily due to a reduction in net loans drawn down from US$ 193.4 million in 2007 to US$ 38.2 million in 2008, combined with higher dividend payments in 2008 and an increase in finance lease payments as a result of two additional vessels being chartered in under finance leases. The upward movement of 111.2% in net cash inflow/(outflow) from financing activities between 2008 and 2009 was primarily due to an increase in net loans drawn down from US$ 38.2 million in 2008 to US$ 160.7 million in 2009, primarily to fund the Group's expenditure on the construction of newbuildings, combined with lower dividend payments in 2009.

Net cash outflow from financing activities was US$ 35.6 million for the six months ended June 30, 2009 and US$ 22.8 million for the six months ended June 30, 2010. The decrease of 36.0% in net cash outflow from financing activities was primarily due to an increase in net loans drawn down from US$ 16.9 million in the six months ended June 30, 2009, to US$ 34.1 million in the six months ended June 30, 2010.

The Group applies all of its surplus cash toward the repayment of amounts outstanding under the Group's revolving credit facilities (see "—Borrowings").

Borrowings

As of June 30, 2010, the Group's outstanding secured bank loans totaled US$ 2,567.4 million (including the current portion of US$ 161.3 million and the Group's share in the loans of the Group's joint ventures), with maturities ranging from 2010 to 2021.

As of June 30, 2010, the Group had 21 U.S. dollar term loans outstanding, of which, as at such date, US$ 1,670.4 million (including the current portion of US$ 161.3 million and the Group's share in the loans of the Group's joint ventures) was outstanding. The Group's term loans are collateralized by first priority mortgages on 104 of the Group's vessels and pledges of the shares in 94 individual vessel holding companies. In addition, as of June 30, 2010, all of the Group's term loans were guaranteed by Fiona, Intrigue or Marpetrol.

As of June 30, 2010, the Group had 10 multi-borrower revolving credit facilities available, which, as at such date, provided for borrowings of up to US$ 1,138.9 million in aggregate, of which US$ 240.4 million was undrawn. The Group's revolving credit facilities are collateralized by mortgages on 62 of the Group's vessels and pledges of the shares in 62 individual vessel holding companies. Certain of the Group's vessels serve as security for more than just one revolving credit facility or term loan. In addition, as of June 30, 2010, all of the Group's revolving credit facilities were guaranteed by Fiona, Intrigue or Marpetrol.

In July 2010, the Group entered into and drew down a new term loan in the amount of US$ 60 million, which is secured by the two Aframax tankers *Yuri Senkevich* and *Victor Konetsky*. This loan matures in August 2015. The Group also entered into and drew down a new term loan in July 2010 in the amount of $56 million, which is secured by the *SCF Sakhalin* vessel. The loan matures in 2017. In addition, on June 19, 2010 the Group signed agreements with subsidiaries of a state controlled financial institution for the sale and lease-back of two of its vessels under bareboat charters. The aggregate consideration of the transactions was US$ 230 million at effective annual interest rates of 6.53%. The agreements become effective after the satisfaction of all conditions precedent but not later than September 30, 2010, for the first vessel, or January 20, 2011, for the second vessel. The conditions precedent were satisfied with respect to the first agreement on September 7, 2010, and the Group completed the first transaction, receiving US$ 115 million from the counterparty.

US$ 810.9 million of the Group's outstanding secured bank loans (approximately 33% of the Group's outstanding secured bank loans as of June 30, 2010) are expected to mature in 2013, including US$ 563.9 million of revolving credit facilities (see "Risk Factors—Risks relating to the Notes—The Group has a significant amount of indebtedness that matures in 2013, which could have an adverse impact on the Group's ability to fulfill its obligations under the Notes and the Guarantee").

Schedule of Obligations

The following table shows the Group's contractual obligations as of June 30, 2010 (in USD millions), based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay:

		Payments due by period		
	Total	Less than 1 year	1-5 years	More than 5 years
Trade and other payables	178.3	178.3	—	—
Payments under finance leases	66.8	51.5	15.3	—
Secured bank loans	2,579.3	162.9	1,404.4	1,012.0
Interest payable on secured loans	543.9	84.4	305.3	154.2
Total	3,368.3	477.1	1,725.0	1,166.2

Off-Balance Sheet Arrangements

The Group has no off-balance sheet arrangements that have or are reasonably likely to have, a current or future material effect on the Group's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

MANAGEMENT

In accordance with Federal Law No. 208-FZ of December 26, 1995 "On Joint-Stock Companies" (as amended) (the "**Joint-Stock Companies Law**") and Sovcomflot's charter (the "**Charter**"), adopted by Rosimushchestvo, which, acting on behalf of the Russian Federation, exercises the rights of the Sovcomflot's sole shareholder. Sovcomflot's operations are governed by its General Meeting of Shareholders, Board of Directors, Executive Board and the General Director, being at the same time the Head of the Executive Board (the "**CEO**"). The General Meeting of Shareholders is Sovcomflot's highest governing body and, among other things, elects its Board of Directors. The Board of Directors is responsible for formulating Group's strategy and the Executive Board and the CEO is responsible for implementing Group's strategy and for managing the Group's affairs on a daily basis.

General Meeting of Shareholders

The General Meeting of Shareholders takes place at least annually, no earlier than two months and no later than six months after the end of the respective financial year, usually in June. The following decisions, among others, can be taken only by the General Meeting of Shareholders: amendments to the Charter; the reorganization or liquidation of Sovcomflot; the election of the members of its Board of Directors and early termination of their powers; the appointment of the CEO and early termination of his/her powers; the determination of the quantity, category and nominal price of Sovcomflot's authorized shares as well as the rights arising out of the ownership of such shares; increases of the charter capital; the reduction of the charter capital; the approval of the annual report and annual accounts; and the approval of certain major transactions and interested party transactions, in accordance with the provisions of the Joint-Stock Companies Law.

As the Russian Federation currently controls 100% of the voting shares of Sovcomflot, Rosimushchestvo, in accordance with Resolution No. 738 of the Russian Government dated December 3, 2004 "On Management of Shares of Open Joint-Stock Companies Being the Federal Property and Exercise of a Special Right of the Russian Federation to Manage Open Joint-Stock Companies ("golden share")" (as amended) ("**Resolution No. 738**"), is empowered to exercise all of the powers within the competence of the General Meeting of Shareholders. Accordingly, decisions of the General Meeting of Shareholders are taken in the form of Resolutions passed by Rosimushchestvo. Further, pursuant to Resolution No. 738 and the Russian Government Resolution No. 91-r of January 23, 2003, when exercising its powers as the sole shareholder of Sovcomflot, Rosimushchestvo can take decisions only upon directives from the Russian Government, Prime Minister or, at the request of the Prime Minister, Deputy Prime Minister.

Board of Directors

The Board of Directors is responsible for the general management of Sovcomflot's activities and meets several times each year. Under Sovcomflot's Charter, the Board of Directors must consist of nine members, and it currently consists of nine such members. Five members of the Board of Directors, including the CEO of Sovcomflot, currently hold positions in Russian Ministries, the Presidential Executive Office or state-owned companies, occupying the posts of Head of the Presidential Executive Office, Deputy Minister of Transport, Deputy Minister of Energy and CEO of Transneft, and all of the members of the current Board of Directors were nominated by the Russian Government. A further four members of the current Board of Directors are independent.

As the Russian Federation controls 100% of the voting stock of Sovcomflot, members of Sovcomflot's Board of Directors, other than independent directors, are required to vote in meetings of the Board of Directors on certain agenda items in accordance with directives issued by the Russian Government pursuant to Resolution No. 738. Such agenda items include, among other things, recommendations on the size of dividends and decisions on certain major transactions.

The powers of the Board of Directors include, among other things, the following: to determine priorities of Sovcomflot's operations; to issue bonds or other securities in accordance with the Joint-Stock Companies Law; to appoint Sovcomflot's Executive Board members and to early terminate their powers; to determine the remuneration for the members of the Executive Board; to recommend the size of dividends; to use the reserve fund and other funds; to create branch and representative offices; and to adopt decisions on certain major transactions and interested party transactions in accordance with provisions of the Joint-Stock Companies Law.

Executive Board

The Executive Board and the CEO are Sovcomflot's executive bodies. The Executive Board is responsible for the daily management of Sovcomflot and holds its meetings in accordance with its internal schedule agreed on a quarterly basis. Meetings of the Executive board are conveyed as required by the circumstances. Usually the Executive Board meets several times a month. Members of the Executive Board, except for the CEO, are nominated by the CEO and are appointed by the Board of Directors for an indefinite term. The Board of Directors has the right to terminate the authority of any member of the Executive Board.

The responsibilities and tasks of the Executive Board include, among other things: the development of the Group's business operations policy and internal coordination and control; decisions on the most important issues of the daily management of Sovcomflot; recommendations to the CEO on entering into proposed transactions, including financing agreements, within the competence of the Executive Board; reporting to the Board of Directors on the financial standing of Sovcomflot, on the implementation of priority projects, transactions and decisions that may have a material effect on Sovcomflot's business; and other issues that are not within the exclusive competence of the General Meeting of Shareholders or the Board of Directors.

The CEO

The CEO has the authority to act in Sovcomflot's name without power of attorney, and presents Sovcomflot's interests; approves staff appointments; negotiates projects; issues orders and decrees; gives instructions to be carried out by all the employees of Sovcomflot; and issues internal documents relating to current activities (with the exception of internal documents that are within the competence of Sovcomflot's other management bodies) and performs certain other activities. The CEO is appointed by the General Meeting of Shareholders for the period indicated in his employment contract. Mr. Frank, the CEO of the Group as of the date of this Prospectus, has been appointed for a term that expires on June 30, 2012.

Share Ownership of Directors and Administrative Board Members

None of the members of the Board of Directors or the Executive Board holds any shares in Sovcomflot.

Board of Directors

The following table sets forth the name, year of birth, the year of initial election and position of each of Sovcomflot's directors as of the date hereof.

Name	Year of birth	Board Member since	Position (Independence)
Sergey Naryshkin	1954	2004	Chairman of the Board of Directors
Sergey Frank	1960	1998	Member
Sergey Kudryashov	1967	2010	Member
Marlen Manasov	1965	2010	Member (Independent)
David Moorhouse	1947	2010	Member (Independent)
Victor Olerskiy	1965	2010	Member
Charles Ryan	1967	2008	Member (Independent)
Elena Titova	1967	2008	Member (Independent)
Nikolay Tokarev	1950	2008	Member

Certain biographical information and key positions held by the members of Sovcomflot's Board of Directors are set forth below. Mr. Frank does not hold any office outside of the Group.

Sergey Naryshkin

Mr. Naryshkin was born on October 27, 1954 in St. Petersburg. In 1978, he graduated from the Leningrad Mechanical Institute as a radio mechanical engineer and received later a second graduate

degree in economics at the St. Petersburg International School of Management. After having worked in the USSR embassy in Belgium as an economic advisor and expert, Mr. Naryshkin has worked on various top positions in the administration of St. Petersburg and the Leningrad Region. In 2004, he was appointed Deputy Head of the Economic Directorate of the Presidential Executive Office and Minister, Chief Staff of the Government of the Russian Federation—Minister of the Russian Federation. In 2007, Mr. Naryshkin began holding the office of the Chief Staff of the Government of the Russian Federation, a Deputy Prime Minister of the Russian Federation and in 2008 he became Chief Staff of the Presidential Executive Office.

Mr. Naryshkin was elected to the Board of Directors of Sovcomflot on September 2, 2004.

Sergey Frank

Mr. Frank was born in Novosibirsk on August 13, 1960. He graduated from the Far East Nautical Engineering College where he majored in maritime navigation and later undertook postgraduate studies at the Far East State University, Faculty of Law. Mr. Frank has worked in the maritime transportation industry since 1984. He has occupied positions as the Deputy Head of the Far East Nautical Engineering College and as the Head of the Foreign Economic Relations Department, Deputy Head and Chief Financial Officer of the Far East Shipping Company ("**FESCO**"). Between 1995 and 2004, he served at the Ministry of Transport of the Russian Federation as Deputy Director of the Maritime Transport Department (Maritime Administration of Russia), Deputy, the First Deputy of the Minister of Transport and was then appointed as the Minister of Transport.

Mr. Frank was elected to the Board of Directors of Sovcomflot on November 30, 1998.

Sergey Kudryashov

Mr. Kudryashov was born on July 25, 1967 in Otradny, Samara region, Russia. He graduated from the Kuybyshev Polytechnic Institute in 1991. In 2006, Mr. Kudryashov has received an Executive MBA from the Stockholm School of Economics. He started his career at the Nizhnevartovskneft as a drilling operator. In 2002, Mr. Kudryashov became Deputy CEO of Tomskneft and CEO of Strezhevoyneft. From 2003 to 2005 he has worked as CEO of Yuganskneftegas and Vice President of YUKOS Exploration and Production. From 2005 to 2008, Mr. Kudryashov occupied the position of the First Vice President of Rosneft. In December 2008, he was appointed Deputy Minister of Energy of the Russian Federation.

Mr. Kudryashov was elected to the Board of Directors of Sovcomflot on June 29, 2010.

Marlen Manasov

Mr. Manasov was born on September 20, 1965 in Moscow. He graduated from the Economics department of the Lomonosov Moscow State University in 1990. From 1990 to 1991 Mr. Manasov was an expert at the international department of the academy of the National Economy at the Council of Ministers of the USSR. Then he worked as an Executive Director of the investment firm "Aktiv". From 1993 to 2003 he was the Head of Brunswick and Head of Brunswick UBS Warburg. From 2003 to 2008 Mr. Manasov was the General Director of UBS Securities.

Mr. Manasov was elected to the Board of Directors of Sovcomflot on June 29, 2010.

David Moorhouse

Mr. Moorhouse was born on March 10, 1947 in London. He graduated from the University of Southampton. In 2005, Mr. Moorhouse was awarded Honorary Doctorate of the University of Southampton. He started his career in 1975 at John Brown Engineering and Constructors Ltd and was appointed the Chairman of the Board of Directors at John Brown plc in 1986. In 1989, Mr. Moorhouse was appointed to the Board of Directors of Trafalgar House Engineering and in 1992 he was appointed to the position of CEO of Trafalgar, John Brown. In 1996, Mr. Moorhouse was appointed Chairman and CEO of the Process Division of Kvaerner (Norway). After that he was appointed a Head of Lloyd's Register in 1999 and performed duties of the CEO from 2000 to 2007.

Mr. Moorhouse was elected to the Board of Directors of Sovcomflot on June 29, 2010.

Victor Olerskiy

Mr. Olerskiy was born on April 26, 1965 in Liepaya, Latvia. He graduated from the Leningrad Higher Maritime-Engineering School in 1987. From 1987 to 1991, Mr. Olerskiy has worked as an engineer at the Baltic Maritime Shipping Company. Since 1991, he has served as the Head of the Agent Department, Deputy Director of the JSC Infotech Baltika. In 2009, Mr. Olerskiy was appointed Deputy Minister of Transport of the Russian Federation.

Mr. Olerskiy was elected to the Board of Directors of Sovcomflot on June 29, 2010.

Charles Ryan

Mr. Ryan was born on May 11, 1967 in Kansas, United States. He graduated with honors in Government from the Harvard College. Mr. Ryan began his professional career in 1989 with CS First Boston where he was a financial analyst. From 1991 to 1994 he was an Associate and Principal Banker at the EBRD in London. In 1994, Mr. Ryan co-founded United Financial Group, an independent financial bank in Moscow. In 2005, he was appointed Chief Country Officer and CEO of Deutsche Bank Group in Russia. In 2008, Mr. Ryan became Chairman of UFG Asset Management.

Mr. Ryan was elected to the Board of Directors of Sovcomflot on June 30, 2008.

Elena Titova

Ms. Titova was born on May 16, 1967 in Moscow. Ms. Titova graduated from Moscow State University in 1990 and has received later a Master in Management from the Kellogg Graduate School of Management. She started her career in 1990 at W. R. Grace & Co as international market specialist in market development. From 1994 to 2003 Ms. Titova has been working at Goldman Sachs and held various roles in London and Moscow. She was a lead banker for client coverage and execution in the CEE & CIS (including Russia). In 2003, Ms. Titova became President of the Russian Office of Goldman Sachs. In 2006, she was appointed Head of the Morgan Stanley Office in Russia.

Ms. Titova was elected to the Board of Directors of Sovcomflot on June 30, 2008.

Nikolay Tokarev

Mr. Tokarev was born on December 20, 1950 in Karaganda, Kazakhstan. He graduated in 1973 from the Polytechnic Institute of Karaganda majoring in Electrification and Automation in Mining. After graduation Mr. Tokarev has held top positions in various exploration and mining companies in the USSR and later in the Presidential Executive Office. In 1999, Mr. Tokarev has been appointed Vice President of Transneft. From 2000 to 2007, he was CEO of Zarubezhneft. In 2007, Mr. Tokarev was elected President of Transneft.

Mr. Tokarev was elected to the Board of Directors of Sovcomflot on June 30, 2008.

Executive Board

The following table sets forth the name, year of birth, the year of initial election and position of each of our directors as of the date hereof.

Name	Year of birth	Board Member since	Position
Sergey Frank	1960	2004	Executive Board Chairman
Evgeniy Ambrosov	1957	2009	Senior Executive Vice-President of Sovcomflot
Nikolay Kolesnikov	1963	2005	Executive Vice-President of Sovcomflot, Chief Strategy & Financial Officer
Alexander Kurtynin	1967	2007	Vice-President of Sovcomflot
Callum Ludgate	1969	2007	Managing Director of Sovcomflot UK Ltd.
Vladimir Mednikov	1953	2005	Executive Vice-President of Sovcomflot, Administrative Director
Sergey Popravko	1961	2005	Managing Director of UNICOM Management Services (Cyprus) Ltd.
Nicholas Fairfax	1956	2007	Deputy Managing Director of Sovcomflot (UK) Ltd.
Marios Christou Orphanos	1972	2010	Managing Director of Sovcomflot (Cyprus) Limited, Limassol

Certain biographical information about each of our current Executive Board members is set forth below.

Sergey Frank—CEO and Chairman of the Executive Board of Sovcomflot.

Mr. Frank was born in Novosibirsk on August 13, 1960. He graduated from the Far East Nautical Engineering College where he majored in maritime navigation and later undertook postgraduate studies at the Far East State University, Faculty of Law. Mr. Frank has worked in the maritime transportation industry since 1984. He has occupied positions as the Deputy Head of the Far East Nautical Engineering College and as the Head of the Foreign Economic Relations Department, Deputy Head and Chief Financial Officer of the Far East Shipping Company ("**FESCO**"). Between 1995 and 2004, he served at the Ministry of Transport of the Russian Federation as Deputy Director of the Maritime Transport Department (Maritime Administration of Russia), Deputy, the First Deputy of the Minister of Transport and was then appointed as the Minister of Transport.

In 2004, he was elected CEO of Sovcomflot and Chairman of the Executive Board.

Evgeniy N. Ambrosov—Senior Executive Vice-President of Sovcomflot.

Mr. Ambrosov was born on July 23, 1957 in Vladivostok. In 1979, he graduated from the navigation faculty of the Far Eastern Higher Engineer Academy. He began his career as a cargo-officer on board liner vessels of the FESCO and continued to work for the Head office of the FESCO for the following 17 years as a clerk and then as the Head of Fleet Operation Department. Mr. Ambrosov has occupied several leadership positions in the maritime transportation industry as FESCO's Vice-President, Director of the Fleet Operation Department between 1997 and 2000, President of FESCO from 2002 to 2007 and President of FESCO Transportation Group from 2008 to 2009.

After serving as Senior Vice-President of Sovcomflot between 2000 and 2002, Mr. Ambrosov was appointed Senior Executive Vice-President of Sovcomflot in June 2009.

Nikolay Kolesnikov—Executive Vice-President and Chief Strategy & Financial Officer of Sovcomflot.

Mr. Kolesnikov was born on August 9, 1963 in Moscow. He graduated with honors from the Moscow Institute of Finance with a Degree in Economics and later studied at the Instituto de Empresa, Madrid where he received an International Executive MBA in 2002. Throughout his career, Mr. Kolesnikov has occupied several investment positions centered in the marine and energy industries. Between 1985 and

1992, he served as the Deputy Director of the Morinvest Department of VVO "Sovfracht" of the USSR Ministry of Merchant Marine and from 1993 to 1999, he worked as the Vice President and Head of Investment Banking of Deutsche Bank in Moscow. From 1999 to 2005, Mr. Kolesnikov has occupied positions as Vice President of the Investment Banking Division of J.P. Morgan Securities Ltd., Senior Banker of the European Bank for Reconstruction & Development's Energy Business Group and Executive Director of the Investment Banking Division of United Financial Group.

In 2005, Mr. Kolesnikov was appointed Vice-President of Corporate Finance, and he took the position of Executive Vice-President and Chief Strategy & Financial Officer of Sovcomflot in 2007.

Alexander Kurtynin—Vice-President of Sovcomflot.

Mr. Kurtynin was born in 1967. He graduated from the Moscow Institute of Radio-electronics and Automatic Systems and received a degree in finance from the Manchester University Business School. Mr. Kurtynin engaged in project financing of the Russian oil and gas sector for seven years at the European Bank of Reconstruction and Development. In 2006, he joined Sovcomflot as the Director of the Auditing and Corporate Risks Department and was later appointed Head of the New Projects Department.

In 2007, Mr. Kurtynin was appointed Vice-President of Sovcomflot.

Callum Ludgate—Managing Director of Sovcomflot UK Ltd. (London) and member of the Executive Board's Chartering Committees.

Mr. Ludgate was born in Great Britain on May 17, 1969. He graduated from the University of Southampton and began his career as a professional ship broker before joining Sovcomflot in May 1993.

In 2004, Mr. Ludgate was appointed Managing Director of Sovcomflot UK Ltd. (London).

Vladimir Mednikov—Executive Vice-President and Administrative Director of Sovcomflot.

Mr. Mednikov was born on November 2, 1953 near Moscow. In 1980, he graduated from the Law school of the Peoples Friendship University and later undertook postgraduate studies in maritime law through correspondence with The All-Union Maritime Research Institute. Mr. Mednikov began his career as a Senior Legal Adviser to the Ministry of Merchant Marine of the USSR. Between 1987 and 1991, he occupied the positions of Director of Charter Travel Company Ltd. and Director and General Manager of the Legal and Claims Department of Anglo-Soviet Shipping Co. Ltd. Between 1991 and 2005, he continued his legal career as Deputy Director General, Deputy Managing Partner and Managing Partner at International Law Firm Jurinflot. Mr. Mednikov is Vice-President of the Russian Association of International Maritime Law, a Director of BIMCO, a Director of West of England P and I Club, Judge of Arbitration Panel at the Central Agency for Transport and is an Honorary Advocate of the Russian Federation.

In 2005, Mr. Mednikov was appointed Executive Vice-President and Administrative Director of Sovcomflot.

Sergey Popravko—Managing Director of UNICOM Management Services (Cyprus) Ltd.

Mr. Popravko was born in Mikhailovka, Primorsky region on February 11, 1961. In 1984, he graduated from the Far East Higher Engineering Marine School where he majored in maritime navigation and in 1993, received a Master of Science in Technical Management of Shipping Companies from the World Maritime University. Mr. Popravko worked as an able seaman, deck officer, chief officer and master on the vessels for Primorsk Shipping Company ("**PRISCO**") from 1984 to 1992. Between 1994 and 1997, he served as manager of the Chartering Department of PRISCO and Sinchart Shipping Pte., Ltd. (Singapore) and became General Manager of PRISCO's Fleet Operations and Management in 1997. Between 2001 and 2004, Mr. Popravoko occupied the position of First Vice-President of PRISCO and then served as President and CEO of PRISCO between 2004 and 2005.

In June 2005, Mr. Popravko was appointed Executive Vice-President and Chief Operating Officer of Sovcomflot. In November 2005, he was appointed Managing Director of UNICOM Management Services (Cyprus) Ltd.

Nicholas Fairfax (Lord Fairfax of Cameron)—Deputy Managing Director of Sovcomflot (UK) Ltd.

Lord Fairfax was born in 1956. He studied at Eton College and graduated from Downing College, Cambridge with a degree in International Law. Lord Fairfax is a former Member of the House of Lords. He worked in the marine insurance field for 25 years at Thomas Miller (Managers of UK P&I Club) and at Sedgwick Group.

In 2005, Lord Fairfax was appointed Deputy Managing Director of Sovcomflot (UK) Ltd.

Marios Christou Orphanos—Managing Director of Sovcomflot (Cyprus) Ltd., Limassol.

Mr. Orphanos was born in Cyprus on February 18, 1972. He graduated from the University of Manchester with a First Class Bachelor of Arts degree in Economics and Social Studies. In 1998, he became a qualified Chartered Accountant and a member of the Institute of Chartered Accountants in England and Wales. Mr. Orphanos worked for several years at Moore Stephens, Chartered Accountants in London. Between 2000 and 2005, he occupied the position of Group Chief Accountant at Unicom Management Services (Cyprus) Limited, Limassol.

In January 2006, Mr. Orphanos was appointed Managing Director of Sovcomflot (Cyprus) Ltd., Limassol.

Each of the members of our Board of Directors and Executive Board can be contacted at our registered address at 6 Gasheka Street, Moscow 125047, Russian Federation.

There are no current or potential conflicts of interest between the private interests and/or other duties of any member of Sovcomflot's Board of Directors or Executive Board and the duties of the members of Sovcomflot's Board of Directors and Executive Board to Sovcomflot.

Directors' and Officers' Compensation

According to the Charter of Sovcomflot the amount of remuneration and compensation payable to the members of Executive Board shall be determined by the Board of Directors. The General Meeting of Shareholders decides on the amount of remuneration and compensation payable to the members of the Board of Directors.

Compensation amounts paid to such key management for the years ended December 31, 2009, December 31, 2008 and the year ended December 31, 2007 set by the Board of Directors and General Meeting of Shareholders for members of the Executive Board and members of the Board of Directors, respectively, were as follows:

	For the year ended 31 December		
	2007	2008	2009
	USD, thousand		
Independent members of the Board of Directors[1]	—	55	139
Members of the Executive Board	5,224	9,207	6,089

(1) No members of the Board of Directors received compensation from the Group in 2007. Beginning in 2008, the Group has paid compensation only to independent members of the Board of Directors.

SHARE CAPITAL AND DIVIDENDS

Share Capital

As of June 30, 2010, Sovcomflot's share capital amounted to RUR 1,966,697,210, consisting of 1,966,697,210 ordinary shares with a nominal value of RUR 1 each. No preferred shares are issued, authorized or outstanding. The Russian Federation currently owns 100% of Sovcomflot's ordinary shares. The Federal Agency for the State Property Management of the Russian Federation, acting on behalf of the Russian Federation, exercises the rights of Sovcomflot's sole shareholder. As a sole shareholder and the nominating party for all of the members of Sovcomflot's Board of Directors, the Russian Federation has a strong influence over decisions made by Sovcomflot.

By Decree of the Russian President No. 1009 on August 4, 2004, Sovcomflot was included on the Russian Federation's list of strategic enterprises and strategic joint-stock companies that have certain restrictions with respect to their share capital. This Decree required that 100% of Sovcomflot's share capital be state-owned, and, until recently, privatization of Sovcomflot's shares was not permitted. Pursuant to this Decree, any decision to privatize listed entities is the exclusive competence of the Russian President and Russian Government pursuant to Federal Law No. 178-FZ "On Privatization of the State and Municipal Property," dated December 21, 2001. As a result, the CEO of Sovcomflot is not entitled to sell shares in any other entity listed as a "strategic asset" that was contributed to the share capital of Sovcomflot, including Novoship. The CEO is also restricted from executing transactions on behalf of Sovcomflot if such transactions could result in the sale, or the introduction, of trust management in relation to shares owned by the Russian Federation without the prior consent of the Russian Government or other authorized agency. Any such transaction executed without prior consent from the Russian Government is void. Further, any decrease in the federal interest in a strategic company as a result of issuing additional shares must be approved by the Russian President and is subject to the state retaining at least 50% plus one voting share.

Further, on June 18, 2010, a further Decree of the President of the Russian Federation No. 762, dated June 18, 2010 allowed privatization of up to 25% minus one share of the share capital of Sovcomflot, and, according to the Forecast Plan of Federal Property Privatization for the year 2010 and Principal Directions for Federal Property Privatization for the years 2011-2012, the Russian Federation contemplates privatization of up to 25% minus one share in the share capital of Sovcomflot in 2011. However, as of the date of this Prospectus no further formal action has been taken with respect to the privatization of any of Sovcomflot's shares, and it remains unclear when and on what terms any such privatization of Sovcomflot's shares may be carried out (if at all).

Dividends

Management believes the Group has a consistent dividend policy having distributed between 10% and 15% of net earnings for the period 2007 through 2009. The following dividends were approved in respect of the years ended December 31, 2007, 2008 and 2009 (as of the date of this Prospectus, no interim dividends for 2010 have been approved):

For the year ended 31 December	RUR per share	Total RUR (million)	Total USD (million)
2007	0.49	959.8	40.9
2008	0.51	1,000.9	32.0
2009	0.47	920.6	29.7

RELATED PARTY TRANSACTIONS

For the purposes of IFRS, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's financial or operational decisions, as defined by IAS 24 "Related Party Disclosures."

At present, state-controlled entities are no longer exempt from disclosing transactions with other state-controlled entities and bodies. Since Sovcomflot is a wholly state-owned entity, the nature of Sovcomflot's relationships with the related parties whom the Group entered into significant transactions or had significant balances outstanding as of June 30, 2010 are described below. For further information on the Group's significant transactions and balances with related parties, please see Note 13 to the consolidated financial statements for the six months ended June 30, 2010 and Notes 38 and 40 to the audited consolidated financial statements for the years ended December 31, 2008 and December 31, 2009.

Transactions with the Government, State-controlled entities and Associates

- Included in tonnage under construction as of June 30, 2010, is one newbuilding (two as of December 31, 2009) with a total contracted cost of US$ 125 million (US$ 251 million as of December 31, 2009) placed on order from a state controlled shipyard in 2006. As of June 30, 2010, installments of US$ 63 million (US$ 175.6 million as of December 31, 2009) were outstanding in respect of this shipbuilding agreement, and the Group accepted delivery of the vessel in September 2010.
- Bank balances include US$ 15.2 million as of June 30, 2010 (US$ 49.4 million as of December 31, 2009) held with state controlled banks. Interest received on those accounts during the six months ended June 30, 2010, amounted to US$ 0.22 million (US$ 3.26 million for the year ended December 31, 2009).
- The Group entered into tow long-term time charter agreements with a state-controlled entity with aggregate hires receivable of US$ 977 million as of June 30, 2010 (US$ 984 million as of December 31, 2009). The charters commenced in February and September 2010 for a period of 25 years. The Group has obtained guarantees from the state-controlled shareholders of the charterers in respect of the performance of the obligations of the charterers under the time charter agreements.
- The Group's LNG joint ventures entered into two time charter agreements with a subsidiary of a state-controlled entity, with aggregate hire receivables of US$ 766 million through the remaining period of the charters as of June 30, 2010 (US$ 789 million as of December 31, 2009). The charters are for 20 years and have commenced in October 2007 and January 2008. Under the agreements, the charterers have the option to purchase the vessels in years five, ten, fifteen or twenty of the charters at amounts for each vessel ranging from US$ 176.4 million in the fifth year to US$ 35 million in the twentieth year.
- The Group signed two agreements with subsidiaries of a state-controlled financial institution for the sale and leaseback of two of the Group's vessels, for an aggregate consideration of US$ 230 million. The first agreement was closed on September 7, 2010, and the Group received an aggregate amount of US$ 115 million from the financing.
- On June 1, 2007, Sovcomflot signed a lease agreement with Rosnefteflot to lease out part of the premises owned in Moscow. The original lease was for a term of 11 months and has since been extended twice. The lease agreement currently expires in February 2011.
- As of June 30, 2010 the Group has chartered seven escort tugs to an associated undertaking on a bareboat charter for a period of 15 years. After June 30, 2010 two additional escort tugs were chartered on a bareboat charter to an associated undertaking.
- The Group also receives services from state-controlled bodies at prices comparable with other similar organizations, the total amounts of which are not material.

SCF CAPITAL LIMITED

SCF Capital Limited was incorporated in Ireland on August 16, 2010, with registered number 487769 as a private company with limited liability under the Companies Acts 1963–2009 of Ireland (the "**Companies Acts**"). The registered office of the Issuer is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and its telephone number + 353 1 680 6000.

Share capital and ownership

The authorized share capital of the Issuer is EUR 100 divided into 100 ordinary shares of par value EUR 1.00 each (the "**Shares**"). The Issuer has issued one Share, which is fully paid and is held by Glenas Shipping Co Inc., a Liberian incorporated company.

The Issuer is a wholly owned subsidiary of Glenas Shipping Co Inc., which is a wholly owned subsidiary of Sovcomflot.

Pursuant to the Articles of Association of the Issuer, the Board is responsible for the management of the Issuer. Under Irish law, for as long as the Issuer is solvent the Board is required to act in the best interests of the Issuer.

The relationship between the Issuer and Glenas Shipping Co Inc., the sole shareholder of the Issuer, is governed by the memorandum and articles of association of the Issuer and Irish law, including the Companies Acts and regulations made thereunder.

Deutsche International Corporate Services (Ireland) Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on October 21, 2010 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary.

The Corporate Services Provider's principal office is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.

Principal Activities

The principal objects of the Issuer are set forth in clause 2 of its Memorandum of Association (as currently in effect) and permit the Issuer, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organized as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use amounts equal to the proceeds of each such issuance to advance loans to Group companies.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a private company under the Companies Acts and those related to the issue of the Notes. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the Board of Directors of the Issuer will consist of at least two Directors. The Directors of the Issuer and their business addresses are as follows:

David McGuiness	5 Harbourmaster Place, IFSC, Dublin 1, Ireland.
Margaret Kennedy	5 Harbourmaster Place, IFSC, Dublin 1, Ireland.
Alexander Verbo	6 Gasheka Street, Moscow 125047, Russian Federation

The Company Secretary is Deutsche International Corporate Services (Ireland) Limited.

The Directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorships of David McGuiness and Margaret Kennedy are provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement. There are no current or potential conflicts of interest between the private interests and/or other duties of any member of the Issuer's Board of Directors and the duties of the members of the Issuer's Board of Directors to the Issuer.

Save for the issues of Notes described above and their related arrangements, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

Financial Statements

Since its date of incorporation, the Issuer has not commenced operations and no financial statements of the Issuer have been prepared as of the date of this Prospectus. The Issuer intends to publish its first financial statements in respect of the period ending on December 31, 2010. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on December 31 in each year.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit and loss account and balance sheet can be obtained free of charge from the registered office of the Issuer.

The auditors of the Issuer are Ernst & Young of Ernst & Young Building, Harcourt Centre, Harcourt Street, Dublin 2, Ireland, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland.

TERMS AND CONDITIONS OF THE NOTES AND THE GUARANTEE

The following is the text of the terms and conditions of the Notes which, subject to amendment, will be endorsed on each Definitive Note (as defined below) and will be attached and (subject to the provisions thereof) apply to the Global Notes.

The US$ 800,000,000 5.375 per cent. Notes due 2017 (the "**Notes**", which expression includes any further Notes issued pursuant to Condition 16 and forming a single series therewith) of SCF Capital Limited (the "**Issuer**") were authorised by a written resolution of the board of directors of the Issuer dated October 21, 2010.

The Notes are constituted by a trust deed dated October 27, 2010 (the "**Trust Deed**") between the Issuer, OAO "SOVCOMFLOT" (the "**Guarantor**") and Deutsche Trustee Company Limited (the "**Trustee**", which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer and the Guarantor have entered into an agency agreement dated October 22, 2010 (the "**Agency Agreement**") with the Trustee and Deutsche Bank AG, London Branch, as principal paying agent (the "**Principal Paying Agent**" and, together with any other paying agents and other transfer agents appointed under the Agency Agreement, the "**Paying Agents**" and the "**Transfer Agents**"), Deutsche Bank Luxembourg S.A. as registrar (the "**Registrar**") and Deutsche Bank Trust Company Americas as U.S. registrar (the "**U.S. Registrar**"), U.S. paying agent and U.S. transfer agent. The Registrar, U.S. Registrar, Paying Agents and Transfer Agents are together referred to herein as the "**Agents**". Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of the Trustee, being at the date hereof Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom, and at the specified offices of the Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Capitalised terms used but not defined in these Terms and Conditions shall have the respective meanings given to them in the Trust Deed.

1. Form and Denomination

The Notes are issued in fully registered form, without interest coupons attached, in denominations of US$ 200,000 and integral multiples of US$ 1,000 in excess thereof ("**authorised denominations**") and, provided that the Notes may be transferred only in amounts not less than an authorised denomination. Title to the Notes shall pass by registration in the register (the "**Register**") which the Issuer shall procure to be kept by the Registrar. The Notes are initially issued in global, fully registered form, and will only be exchangeable for Notes in definitive, fully registered form ("**Definitive Notes**") in the limited circumstances set forth in the Agency Agreement.

2. Guarantee and Status

(a) Guarantee

The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (the "**Guarantee**"). The Guarantor's obligations in respect of the Guarantee are contained in the Trust Deed.

The Guarantor has undertaken in the Trust Deed that so long as any of the Notes remains outstanding (as defined in the Trust Deed) it will not take any action for the liquidation or winding-up of the Issuer and that it will procure that sufficient funds are at all times made available to the Issuer to enable it to meet its liabilities as and when they fall due.

(b) Status

The Notes constitute unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. Subject to Condition 4, each of the Issuer and the Guarantor shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantee, respectively, rank in right of payment at least *pari passu* with the claims of all their other unsecured and unsubordinated creditors save those whose claims are preferred by any mandatory operation of law.

3. Register, Title and Transfers

(a) Register

The Registrar shall maintain the Register in respect of the Notes in accordance with the provisions of the Agency Agreement. The Register shall be kept at the specified office for the time being of the Registrar and shall record the names and addresses of the holders of the Notes, particulars of the Notes and all transfers thereof. In these Conditions, the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(b) Title

Title to the Notes will pass by and upon registration in the Register. The holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no person shall be liable for so treating such holder.

(c) Transfers

Subject to Conditions 3(f) and 3(g) below, a Note may be transferred in whole or in part in an authorised denomination upon surrender of the relevant Definitive Note representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the "**Transfer Form**"), duly completed and executed, at the specified office of the Transfer Agent or of the Registrar, together with such evidence as such Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Note are the subject of the transfer, a new Definitive Note in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3(d). Neither the part transferred nor the balance not transferred may be less than the applicable authorised denomination.

(d) Registration and delivery of Definitive Notes

Within five business days of the surrender of a Definitive Note in accordance with Condition 3(c) above, the Registrar shall register the transfer in question and deliver a new Definitive Note to each relevant holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of the Transfer Agent or (at the request and risk of such relevant holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder.

(e) No Charge

The registration of the transfer of a Note shall be effected without charge to the holder or transferee thereof, but against such indemnity from the holder or transferee thereof as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) Closed periods

Noteholders may not require the transfer of a Note to be registered during the period from any Record Date (as defined below) to the relevant due date for any payment of principal or interest in respect of such Note.

(g) Regulations concerning Transfer and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in Schedule 1 to the Agency Agreement. The regulations may be changed by the Issuer and the Guarantor with the prior written approval of the Trustee, the Transfer Agent and the Registrar. A copy of the current regulations will be sent by the Registrar free of charge to any person who so requests and will be available at the specified office of the Registrar in London.

4. Negative Pledge

So long as any of the Notes remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor will procure that no Subsidiary will create or permit to subsist any Lien, other than a Permitted Lien, upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure any Relevant Indebtedness unless, at the same time or prior thereto, the obligations of the Issuer and the Guarantor hereunder are secured equally and rateably therewith or benefit from such other security or other arrangements, as the case may be, as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

5. Covenants

(a) Mergers

The Guarantor shall (i) not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation as these terms are construed by applicable Russian legislation) and (ii) procure that neither the Issuer nor any Principal Subsidiary enters into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time, as these terms are construed by applicable legislation) if, in the case of (i) or (ii) above, any such reorganisation or other type of corporate reconstruction could reasonably be expected to result in a Material Adverse Effect. For the avoidance of doubt, this Condition 5(a) shall not prevent any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time, as these terms are construed by applicable legislation) pursuant to which the assets and liabilities of any Principal Subsidiary are transferred to another Subsidiary (provided that prior to or upon such reorganisation, the Subsidiary becomes a Principal Subsidiary) as part of a solvent corporate reconstruction, reorganisation, merger or analogous procedure if, at the date of such reorganisation, each relevant Principal Subsidiary or Subsidiary, as the case may be, is able to pay its debts generally as they become due.

(b) Disposals

Neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor will procure that no Subsidiary will, sell, lease, transfer or otherwise dispose of (each such action, a "**disposal**") by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets to any person, except where:

(i) such disposal is made on an arms-length basis in the course of the ordinary business of the Group, as at the Closing Date;

(ii) such disposal is made to a person that is either the Issuer, the Guarantor or a Subsidiary (provided that prior to or upon such disposal, the Subsidiary becomes a Principal Subsidiary), as the case may be;

(iii) such disposal is of an asset not necessary for the ordinary business of the Group, as at the Closing Date, and is made on an arms-length basis;

(iv) such disposal is made on an arms-length basis and the proceeds of such disposal are invested in assets used in the ordinary business of the Group, as at the Closing Date, or exchanged for other assets comparable, or superior, as to type, value and quality;

(v) such disposal is of obsolete or worn out equipment; or

(vi) such disposal could not reasonably be expected to result in a Material Adverse Effect.

(c) Maintenance of Insurance

The Guarantor shall, and shall ensure that each of its Subsidiaries will, keep those of their assets and properties which are of an insurable nature insured with insurers of good standing against loss or damage to the extent that a competent officer of the Guarantor considers in good faith to be prudent and assets and properties of similar character are typically so insured by corporations in the same jurisdictions similarly situated and owning like properties and carrying on a similar business, save to

the extent that such failure to do so could not reasonably be expected to have a Material Adverse Effect.

6. Interest

The Notes bear interest from the Issue Date at the rate of 5.375 per cent. per annum, payable in equal instalments semi-annually in arrear on April 27 and October 27 in each year, commencing on April 27, 2011.

The Notes will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at such rate to but excluding the date on which payment in full of the principal thereof is made. If interest is required to be calculated for a period other than a semi-annual interest period ending on April 27 and October 27 in each year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

7. Redemption and Purchase

(a) Final redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on October 27, 2017 (the "**Maturity Date**").

(b) Redemption at the option of the Issuer

The Issuer may, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) and, for so long as the Notes are listed on the London Stock Exchange, to the London Stock Exchange, redeem the Notes, in whole but not in part only, at their principal amount thereof and the Applicable Premium together with interest accrued, if any, to the date fixed for redemption. All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

(c) Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 calendar days' notice to the Noteholders (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9, or the Guarantor would be unable to procure payment by the Issuer and in making payment itself would be required to pay such Additional Amounts, in each case as a result of any change in, or amendment to, the laws or regulations of Ireland or the Russian Federation or any political or governmental subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after October 27, 2010 and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 calendar days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer or the Guarantor (as the case may be) shall deliver to the Trustee (x) a certificate signed by two directors of the Issuer or the Guarantor (as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Amounts as a result of such change or amendment. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

(d) Change of Control

If a Change of Control Put Event (as defined below) shall have occurred, the holder of a Note will have the option (the "**Change of Control Put Option**") to require the Issuer to redeem such Note on the Change of Control Put Settlement Date (as defined below) at 100 per cent. of its principal amount together with accrued, but unpaid, interest (if any) to, but excluding, the Change of Control Put Settlement Date.

Promptly upon the Issuer or the Guarantor becoming aware that a Change of Control Put Event has occurred, the Issuer or the Guarantor, as the case may be, shall give notice (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Condition 17 and to the Trustee, specifying the details relating to the occurrence of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

In order to exercise the Change of Control Put Option, the holder of a Note must deliver no later than 30 calendar days after the Change of Control Put Event Notice is given (the "**Change of Control Put Period**"), to the specified office of the Principal Paying Agent or any Paying Agent, evidence satisfactory to the Principal Paying Agent or Paying Agent of such holder's entitlement to such Note and a duly completed put option notice (a "**Change of Control Put Option Notice**") specifying the principal amount of the Notes in respect of which the Change of Control Put Option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or Paying Agent will provide such Noteholder with a non-transferable receipt. On the business day following the end of the Change of Control Put Period, the Principal Paying Agent shall notify the Issuer and the Guarantor in writing of the exercise of the Change of Control Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Change of Control Put Option. Provided that the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall (as provided in Condition 8) redeem all such Notes on the date falling five business days after the expiration of the Change of Control Put Period (the "**Change of Control Put Settlement Date**"). No Change of Control Put Option Notice, once delivered in accordance with this Condition 7(d), may be withdrawn.

"**Change of Control Put Event**" means the occurrence of a Change of Control.

The Trustee shall not be required to take any steps to ascertain or monitor whether a Change of Control Put Event or any event which could lead to the occurrence of a Change of Control Put Event has occurred or exists or may occur or exist and will not be responsible or liable to any holder of a Note for any loss arising from any failure by it to do so. The Trustee may assume until notified otherwise pursuant to this Condition 7 that no Change of Control Put Event has occurred and shall have no liability to any person for so doing.

(e) Purchase

The Issuer, the Guarantor and any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

(f) Cancellation

All Notes redeemed or purchased pursuant to Condition 7(a), (b), (c) or (d) shall be cancelled forthwith, and all notes purchased pursuant to Condition 7(e) shall be delivered promptly to the Registrar for cancellation. Any Notes so cancelled may not be held, resold or reissued.

8. Payments

(a) Principal

Payments of principal (whenever due) and interest due on redemption shall be made by the Paying Agents by US Dollar cheque drawn on a bank in New York City, or by wire transfer to a US Dollar account maintained by the payee with a bank in New York City and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Notes at the specified office of any Paying Agent.

(b) Interest

Payments of interest (other than interest due on redemption) shall be made by the Paying Agents by US Dollar cheque drawn on a bank in New York City, or upon application by the payee to the

specified office of the Registrar before the Record Date, by wire transfer to a US Dollar account maintained by the payee with a bank in New York City not later than the due date for such payment.

(c) Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) Payments on business days

If the due date for any payment of principal or interest under this Condition 8 is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, "**business day**" means any day (other than a Saturday or a Sunday) on which banks are open for business in the place of the specified office of the relevant Paying Agent and, in the case of payment by transfer to a US Dollar account as referred to above, on which dealings in foreign currencies may be carried on both in New York City and in such other place.

(e) Record date

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth calendar day before the due date for such payment (the "**Record Date**"). Any cheque will be mailed to the holder of the relevant Note at his address appearing in the Register.

(f) Agents

The initial Agents and their initial specified offices are listed below. The Issuer and the Guarantor, acting together, reserve the right, with the written approval of the Trustee, to vary or terminate the appointment of all or any of the Agents at any time and appoint additional or other payment or transfer agents, provided that they will maintain (i) a Principal Paying Agent, (ii) Paying Agents and a Transfer Agent having specified offices in at least one major European city approved by the Trustee, being London so long as the Notes are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's EEA Regulated Market and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income. Notice of any such change will be provided as described in Condition 17 below.

In this Condition, "**EEA Regulated Market**" means a "regulated market" as defined by Article 4(1)(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

9. Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or under the Guarantee by the Guarantor shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature (collectively, "**Taxes**") imposed, levied, collected, withheld or assessed by or within Ireland or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In the event that such withholding or deduction is so required, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts ("**Additional Amounts**") as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such Additional Amounts shall be payable in respect of any Note:

(a) held by or on behalf of a holder which is liable to such Taxes in respect of such Note or the Guarantee by reason of its having some connection with Ireland or (as the case may be) the Russian Federation other than the mere holding of such Note or the benefit of the Guarantee; or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 calendar days after the Relevant Date except to the extent that

the relevant holder would have been entitled to such Additional Amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 calendar days; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing, or complying with, or introduced in order to conform to, European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; or

(d) presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Definitive Note to another Paying Agent in a member state of the European Union; or

(e) any combination of the above items.

In these Conditions, "**Relevant Date**" means the date on which the payment in question first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made and notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any Additional Amounts or premium in respect of principal or interest (as the case may be) which may be payable under this Condition.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than (or in addition to) Ireland or the Russian Federation, respectively, references in these Conditions to Ireland or the Russian Federation shall be construed as references to Ireland or (as the case may be) the Russian Federation and/or such other jurisdiction.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject to it having been indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable if any of the following events occur (each an "**Event of Default**"):

(a) payment of principal or interest in respect of any Notes is not made within seven business days of when the same ought to have been paid in accordance with these Conditions;

(b) a default is made by the Issuer or the Guarantor in the performance or observance of any covenant, condition or provision contained in the Trust Deed, in the Notes or on its part to be performed or observed (other than the covenant to pay interest in respect of any of the Notes) which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 45 calendar days after notice of such default shall have been given by the Trustee to the Issuer or the Guarantor requiring such default to be remedied;

(c) (i) the Issuer, the Guarantor or any Subsidiary fails to pay any of its Financial Indebtedness as and when such Financial Indebtedness becomes due and payable, taking into account any applicable grace period; or (ii) any Financial Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or such Subsidiary or (provided that no event of default, howsoever described, has occurred) any person or entity entitled to such Financial Indebtedness; provided that the total amount of such Financial Indebtedness unpaid or becoming due and payable exceeds US$ 50,000,000 in aggregate (or its equivalent in another currency);

(d) the occurrence of any of the following events: (i) the Issuer, the Guarantor or any Principal Subsidiary seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commission (likvidatsionnaya komissiya) or a similar officer; (ii) the presentation or filing of a petition in respect of the Issuer, the Guarantor or any Principal Subsidiary in any court of competent jurisdiction, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, examinership, liquidation (or any analogous proceedings) of the Issuer, the Guarantor or any Principal Subsidiary (ignoring any petition that is not accepted by such court or agency for review on its merits), unless such petition is determined by a court of competent jurisdiction to be vexatious or frivolous; (iii) the institution of supervision (nablyudeniye), financial rehabilitation (finansovoye ozdorovleniye), external management (vneshneye upravleniye) or bankruptcy management (konkursnoye proizvodstvo) over the Issuer, the Guarantor or any Principal Subsidiary; (iv) entry by the Issuer, the Guarantor or any Principal Subsidiary into, or the agreement

by the Issuer, the Guarantor or any Principal Subsidiary to enter into, amicable settlement (mirovoe soglasheniye) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time); (v) the initiation of proceedings in relation to the Issuer, the Guarantor or any Principal Subsidiary aimed at its reorganization or liquidation or commencement of any bankruptcy or analogous proceedings against the Issuer, the Guarantor or any Principal Subsidiary and/or (vi) any judicial liquidation, dissolution, administration or winding-up in respect of the Issuer, the Guarantor or any Principal Subsidiary, provided that no Event of Default shall occur under paragraphs (v) or (vi) above if the relevant Principal Subsidiary is able to pay its debts generally as they become due and its assets and liabilities are being transferred to another Principal Subsidiary as part of a corporate reconstruction, reorganisation, merger or analogous procedure;

(e) the Issuer, the Guarantor or any Principal Subsidiary is unable or admits inability to pay its debts generally as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Financial Indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; and/or a moratorium is declared in respect of any Financial Indebtedness of the Issuer, the Guarantor or any Principal Subsidiary (provided that, for the purposes of this Condition 10(e), in the case of a Principal Subsidiary only, the same could reasonably be expected to have a Material Adverse Effect);

(f) any governmental authorisation necessary for the performance of any obligation of the Issuer or the Guarantor under the Notes and the Guarantee, respectively, fails to be in full force and effect and, without prejudice to any other provision of this Condition 10, such failure has not been remedied within 30 business days after the Issuer or the Guarantor (as applicable) is notified or becomes aware of the occurrence thereof;

(g) any governmental authority or court takes any action that has a Material Adverse Effect on the Issuer's or the Guarantor's ability to perform its obligations under the Notes or the Guarantee, respectively, or the validity or enforceability of the Notes or the Guarantee, save where such action is being contested in good faith by the Issuer or the Guarantor, as the case may be, and is not removed, paid out, stayed or discharged within 60 calendar days of such action being taken;

(h) any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part (in the latter case being assets with a book value in excess of US$ 50,000,000 in aggregate (or its equivalent in another currency)) of, the assets of the Issuer, the Guarantor or any Principal Subsidiary or any event occurs which under the laws of any jurisdiction has a similar or analogous effect and the same could have a Material Adverse Effect unless such execution, distress, enforcement of a Lien or similar or analogous event is being contested in good faith by the Issuer, the Guarantor or any Principal Subsidiary, as the case may be, and is not removed, paid out, stayed or discharged within 60 calendar days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be;

(i) there are unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against the Issuer, the Guarantor or any Principal Subsidiary which could have a Material Adverse Effect and there is a period of 60 calendar days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 20 calendar days after the notice specified in this Condition 10;

(j) any seizure, compulsory acquisition, expropriation, nationalisation without appropriate compensation or renationalisation after the Issue Date by or under the authority of a government authority of all or part (the book value of which is 15 per cent. or more of the book value of the whole, as determined under IFRS) of the assets of the Issuer, the Guarantor or any Principal Subsidiary, which could reasonably be expected to have a Material Adverse Effect;

(k) the Guarantor ceases to carry on the principal business activities it carries on as at the date of this Agreement;

(l) at any time it is or becomes unlawful for the Issuer or the Guarantor to perform or comply with any or all of its material (in the Trustee's opinion) obligations under the Notes or the Guarantee, respectively, or any of such material obligations are not, or cease to be, legal, valid, binding and enforceable;

(m) the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect to at least the same extent as at the date of issue of the Notes; or

(n) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Conditions 10(c), 10(d), 10(h) and 10(i), subject to the same thresholds and cure periods as set out in the relevant Conditions above,

and, except in the case of (a), (e) (so far as it relates to a Principal Subsidiary), (f), (g), (h), (i), (j), (k), (l), (m) and (n) (so far as it relates to events analogous to Conditions 10(h) and 10(i)) above, the Trustee shall have certified in writing to the Issuer that the event is, in its opinion, materially prejudicial to the interests of the Noteholders.

Upon any such notice being given to the Issuer (other than in the case of Condition 10(i)), the Notes will immediately become due and repayable at their principal amount together with accrued interest to such date. In the case of Condition 10(i)), the Notes will become due and repayable 20 calendar days after the notice specified in this Condition 10 is provided to the Issuer at their principal amount together with interest incurred to such date.

11. Prescription

Claims for the payment of principal and interest in respect of any Definitive Note shall be prescribed and become void unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

12. Replacement of Definitive Notes

If any Definitive Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantor may reasonably require. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

13. Meetings of Noteholders, Modification and Waiver

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes, (iv) to change the currency of payment of the Notes, (v) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (vi) to modify or cancel the Guarantee, in which case the necessary quorum will be two or more persons holding or representing not less than two thirds, or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed). A written resolution signed by or on behalf of the holders of not less than 75 per cent. of the aggregate principal amount of Notes outstanding shall be as valid and effective as a duly passed Extraordinary Resolution. Such a written resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) Modification and Waiver

The Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed or the Notes which is, in the opinion of

the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable.

(c) Substitution

The Trust Deed contains provisions permitting the Trustee to agree with the Issuer and the Guarantor, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such substitution, the Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders, to a change of law governing the Notes and/or the Trust Deed, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of Noteholders. Notice of any such substitution will be provided as described in Condition 17 below.

(d) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

14. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such steps, actions or proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and the Notes (whether by arbitration pursuant to the Trust Deed or by litigation), but it need not take any such steps, actions or proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit. The Trustee may rely without liability to Noteholders on any report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or other expert, whether or not addressed to the Trustee and whether or not liability in relation thereto is limited by reference to a monetary cap, methodology or otherwise. The Trustee may accept and be entitled to rely on any such report, confirmation, certificate or advice and it shall be binding on the Issuer, the Guarantor, the Trustee and the Noteholders.

16. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) ("**Additional Notes**") and so that such further issue shall be consolidated and form a single series with the outstanding Notes. The Issuer shall not issue any Additional Notes with the same CUSIP number as the Notes issued hereunder unless such issuance would constitute a "qualified reopening" as defined for U.S. federal income tax purposes. References in these Conditions to the Notes include (unless the context requires otherwise) any Additional Notes issued pursuant to this Condition. Any Additional Notes shall be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders for the holders of securities of other series where the Trustee so decides.

17. Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses as set out on the Register. Any such notice shall be deemed to have been given on the fourth calendar day (other than a Saturday or a Sunday) after the date of mailing. In addition, notices will be published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or, if in the opinion of the Trustee such publication shall not be practicable, in any English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

18. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

19. Arbitration

(a) Subject to Condition 19(c), any dispute or difference of whatever nature howsoever arising between the Issuer or, as the case may be, the Guarantor and any Noteholder (subject to Condition 14) under, out of or in connection with the Notes or the Guarantee (including a dispute or difference as to the breach, existence, termination or validity of the Notes or the Trust Deed or the Guarantee and any non-contractual obligations arising out of or in connection with any of them) (each a "Dispute") shall (regardless of the nature of the Dispute) be referred to and finally settled by arbitration in accordance with the LCIA Rules (the "Rules") as at present in force (which Rules are deemed to be incorporated by reference into this Condition 19(a)) by a panel of three arbitrators appointed in accordance with the Rules.

(b) The seat of arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of the arbitration shall be English. The appointing authority for the purposes set forth in the Rules shall be the LCIA Court. Any award given by the arbitrator shall be final and binding on the parties to the Dispute and shall be in lieu of any other remedy.

(c) The Issuer and the Guarantor each hereby irrevocably agrees for the benefit of each of the Trustee and the Noteholders that (i) before the giving of the notice of arbitration pursuant to the Rules or (ii) if the Trustee or the Noteholders (as the case may be) receive a notice of arbitration from the Issuer or, as the case may be, the Guarantor, within 30 calendar days of receipt of such notice of arbitration, the Trustee or the relevant Noteholder(s) (as the case may be and, in the case of the Noteholders, subject to Condition 14) may elect, by notice in writing to the Issuer or, as the case may be, the Guarantor, that the Dispute be resolved by litigation and not by arbitration.

20. Governing Law, Jurisdiction, Consent to Enforcement and Waiver of Immunity

(a) Governing law

The Notes (including for the avoidance of doubt Condition 19), the Trust Deed and any non-contractual obligations arising out of or in connection with either of them are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

Subject to Condition 20, the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes or the Trust Deed and accordingly any legal action or proceedings arising out of or in connection with the Notes or the Trust Deed ("**Proceedings**") may be brought in such courts and any final and conclusive judgment in any Proceedings brought in the courts of England shall be conclusive and binding and may be enforced in the courts of any other jurisdiction. Each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of each of the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) Agent for Service of Process

Each of the Issuer and the Guarantor has appointed Sovcomflot (UK) Ltd at its registered office (being, at the date hereof, 1 Finsbury Square, 6th Floor, London EC2A 1AE) as its agent in England to receive service of process in any Proceedings in England in connection with the Notes or the Trust Deed.

(d) Consent to enforcement etc.

The Issuer and the Guarantor consent generally in respect of any Proceedings or Disputes to the giving of any relief or the issue of any process in connection with such Proceedings or Disputes including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any judgment or award which may be made or given in such Proceedings or Disputes.

(e) Waiver of immunity

To the extent that either the Issuer or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or an award or otherwise) or other legal process including in relation to the enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer, the Guarantor or their respective assets or revenues, the Issuer and the Guarantor agree not to claim and irrevocably waive such immunity to the full extent permitted by the laws of such jurisdiction.

21. Non-Petition

None of the Noteholders or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes, other than in the case of fraud.

22. Definitions

In these Conditions, the following terms shall have the following meanings:

"**Applicable Premium**" means, with respect to a Note on any redemption date, the excess of (i) the present value at such redemption date of the principal amount of the Note at maturity, plus all required interest payments that would otherwise be due to be paid on such Note during the period between the redemption date and the Maturity Date excluding accrued but unpaid interest at such redemption date, calculated using a discount rate equal to the Treasury Rate, at such redemption date plus 50 basis points, over (ii) the principal amount of the Note at maturity, provided that if the value of the Applicable Premium at any time would otherwise be less than zero, then in such circumstances for the purposes of these Conditions the value of the Applicable Premium will be equal to zero;

"**Auditors**" means the auditors of the Group's IFRS consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under terms of the Notes, such other internationally recognised firm of accountants as may be approved in writing by the Trustee for this purpose;

"**business day**" means (except where expressly defined otherwise) a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office;

"**Change of Control**" means either:

(i) the Russian Federation (a) ceases to own or control (directly or indirectly) at least 51 per cent. or more of the issued and outstanding voting share capital of the Guarantor; or (b) no longer has the right to appoint or remove a majority of the Guarantor's board of directors; or

(ii) a person or Persons Acting In Concert, other than the Russian Federation, becomes the legal or beneficial owner, or gains the ability to control (directly or indirectly) more than 25 per cent. of the issued and outstanding voting share capital of the Guarantor;

"**Closing Date**" means October 27, 2010;

"**European Union**" means the European Union, including the countries of Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom but not including any country which becomes a member of the European Union after the Issue Date;

"**Event of Default**" has the meaning assigned to such term in Condition 10;

"**Financial Indebtedness**" means any obligation for the payment of money in any currency, whether sole, joint or several, and whether actual or contingent, in respect of:

(a) moneys borrowed or raised (including the capitalised value of obligations under finance leases and hire purchase agreements which would, in accordance with IAS, be treated as finance or capital leases, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital);

(b) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;

(c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;

(d) any liability under any interest rate or currency hedging agreement (and the amount of such Financial Indebtedness in relation to any such transaction shall be calculated by reference to the mark-to-market valuation of such transaction, at the relevant time);

(e) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and

(f) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Group);

"**Group**" means the companies which are consolidated in the most recent accounts of the Guarantor prepared in accordance with IFRS;

"**IAS**" means the International Accounting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

"**IFRS**" means the International Financial Reporting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

"**Issue Date**" means October 27, 2010;

"**Lien**" means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 90 calendar days of arising) or other security interest securing any obligation of any person or any other type of preferential arrangement (including any title transfer and arrangement) having a similar effect.

"**Material Adverse Effect**" means a material adverse effect on: (a) the financial condition or operations of the Guarantor or the Group; (b) the Issuer's or the Guarantor's ability to perform its obligations under the Notes and the Guarantee, respectively; or (c) the validity, legality or enforceability of the Notes or the Guarantee or the rights or remedies of the Noteholders under the Notes or the Guarantee;

"Permitted Lien" means any Lien in respect of rights and payments under a loan to the Guarantor or any Subsidiary which is financed by the issuance of any Relevant Indebtedness, where such issuance is by a special purpose vehicle or a bank or any other third party entity and the rights to payment of the holders of such Relevant Indebtedness are limited in recourse to payments actually made by any of the Guarantor or any Subsidiary pursuant to such loan;

"**Person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company or government or other entity;

"**Persons Acting In Concert**" means a group of Persons who (a) knowingly participate in a joint activity or conscious parallel action towards a common goal, whether or not pursuant to an express agreement; or (b) combine or pool voting or other interests in the securities of an issuer for a common purpose pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise;

"**Principal Subsidiary**" means at any relevant time a Subsidiary of the Guarantor (other than the Issuer):

(a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 5 per cent. of the total consolidated assets or the gross consolidated revenues of the Group, all as calculated by reference to the then latest audited accounts (or consolidated accounts, as the case may be) (in each case produced on the basis of IFRS consistently applied) of such Subsidiary and the then latest audited consolidated accounts of the Guarantor (produced on the basis of IFRS consistently applied) and its consolidated Subsidiaries; or

(b) to which are transferred all or substantially all the assets and undertakings of a Subsidiary of the Guarantor which immediately prior to such transfer is a Principal Subsidiary,

to the extent that, at any relevant time, any Subsidiary of the Guarantor falls within (a) and/or (b) above;

"**Relevant Indebtedness**" means any Financial Indebtedness which: (a)(i) is in the form of or represented by any bond, note, debenture stock, loan stock, certificate or other debt instrument which is listed or quoted on any stock exchange or (ii) is in the form of a loan to the Issuer, the Guarantor or any Subsidiary which is financed by the issuance of any of the foregoing forms of debt in (a)(i) above, where such issuance is by a special purpose company or a bank or any other entity and the rights to payment of the holders of such forms of debt are limited to payments actually made by any of the Issuer, the Guarantor or any Subsidiary pursuant to such loan; and (b) in the case of the debt referred to in (a)(i) above or the debt financing a loan referred to in (a)(ii) above, was initially issued and distributed (as to more than 50 per cent. of the original principal amount of such debt) outside the Russian Federation;

"**Subsidiary**" means any corporation or other business entity of which the Issuer or the Guarantor owns or controls (either directly or through one or more Subsidiaries) 50 per cent. or more of the issued share capital or other ownership interest having ordinary voting power to elect a majority of the directors, managers or trustees of such corporation or other business entity;

"**Treasury Rate**" means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity most nearly equal to the period from the redemption date to the Maturity Date. The Issuer will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15(519) which has become publicly available at least two Business Days prior to the redemption date. If the Federal Reserve Statistical Release H.15(519) is no longer published, the Issuer will use any publicly available source or similar market data. If the period from the redemption date to the Maturity Date is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, the Issuer will obtain the Treasury Rate by linear interpolation, calculated to the nearest one-twelfth of a year, from the weekly average yields of U.S. Treasury securities for which such yields are given. If the period from the redemption date to the Maturity Date is less than one year, the Issuer will use the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year to make such calculation; and

"**US Dollars**", "**US$**" or the sign "**$**" means the lawful currency of the United States of America from time to time.

TRANSFER RESTRICTIONS

In connection with its purchase of Rule 144A Notes, any purchaser thereof (an "**Investor**"), by virtue of its acceptance of this Prospectus, will be deemed to represent, acknowledge and agree as follows:

1. This Prospectus is personal to it and does not constitute an offer to any other person or to the public generally to subscribe for or acquire Notes other than pursuant to Rule 144A or in offshore transactions in accordance with Regulation S. It has not distributed this Prospectus or any of its contents to any other person and has not disclosed any of the contents of the Prospectus to any other person.

2. It is not relying on any investigation that the Managers, any of their affiliates or persons acting on their behalf may have conducted with respect to the Notes, Ireland, Russia, the Issuer or Sovcomflot and none of such persons has made any representations to it, express or implied, with respect thereto and that the Managers have not made and are not making any representation as to the truth, accuracy or completeness of the information in the Prospectus.

3. It is a QIB acquiring such Notes for its own account, or for the account of one or more QIBs, and aware and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

4. It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and are "restricted securities" within the meaning of Rule 144 under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from the registration requirements of the Securities Act provided by Rule 144 thereunder, if available, and in each case in accordance with any applicable securities laws of any state of the United States.

5. Anything herein to the contrary notwithstanding, the Investor shall notify any transferee to which it transfers Rule 144A Notes in accordance with Rule 144A that such transferee will be subject to the restrictions set forth herein.

6. The Rule 144A Notes will be represented by a Rule 144A Global Note. Before any beneficial interests in the Notes represented by the Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note, and vice versa, certain certifications will be required pursuant to the agency agreement.

7. The Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will at all times bear a legend substantially to the following effect:

   THIS NOTE AND THE GUARANTEE HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") OR (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

The Issuer, Sovcomflot, the Registrar, the Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any Rule 144A Notes for the account of one or more QIBs, it represents that it has sole investment

discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

In connection with its purchase of Regulation S Notes, an Investor and each subsequent purchaser of Regulation S Notes in resales prior to the expiration of the distribution compliance period, by virtue of its acceptance of this Prospectus, will be deemed to represent, acknowledge and agree as follows:

1. The Prospectus is personal to it and does not constitute an offer to any other person or to the public generally to subscribe for or acquire Notes other than pursuant to Rule 144A or in offshore transactions in accordance with Regulation S. It has not distributed any part of the Prospectus to any other person and has not disclosed any of the contents of the Prospectus to any other person.
2. It is not relying on any investigation that the Managers, any of their affiliates or persons acting on their behalf may have conducted with respect to the Notes, Ireland, Russia, the Issuer or Sovcomflot and none of such persons has made any representations to it, express or implied, with respect thereto and that the Managers are not making any representation as to the truth, accuracy or completeness of the information in the Prospectus.
3. It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) is located outside of the United States or purchasing in an offshore transaction (within the meaning of Regulation S) and (b) is not an affiliate of the Issuer or Sovcomflot or a person acting on behalf of such an affiliate.
4. The Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the 40-day distribution compliance period, it will not offer, sell, pledge or otherwise transfer such notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
5. The Regulation S Notes will be represented by a Regulation S Global Note. Before any beneficial interests in the Notes represented by the Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note, and vice versa, certain certifications will be required pursuant to the agency agreement.
6. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by the Issuer or any of their respective agents.
7. It is not purchasing the Notes with the intent or purpose of evading, either alone or in conjunction with any other person, the provisions of the Securities Act.
8. It understands that the foregoing restrictions apply to offers, sales, pledges and transfers made at any time, whether or not the Notes have previously been offered, sold or transferred outside of the United States.

The Issuer, Sovcomflot, the Registrar, the Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

Each of the Managers has represented and agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

The Notes will be evidenced on issue by (i) in the case of Regulation S Notes, Regulation S Global Notes deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, Rule 144A Global Notes deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "—Book-entry Procedures for the Global Notes." By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, if it determines to transfer such beneficial interest prior to the expiration of the 40-day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in a Rule 144A Global Note (if applicable). See "Transfer Restrictions." Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See "—Book-entry Procedures for the Global Notes." By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the agency agreement. See "Transfer Restrictions."

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the agency agreement, and with respect to Rule 144A Global Notes, as set forth in Rule 144A, and the Notes will bear the legends set forth thereon regarding such restrictions set forth under "Transfer Restrictions." A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, and only upon receipt by the Registrar of a written certification (in the form provided in the agency agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the relevant agency agreement) from the transferor to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note, and become an interest in the Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Notes**"). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears at the relevant time on the register of Noteholders against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

Notices

So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes.

Record Date

Notwithstanding Condition 8, "Record Date" shall mean the Clearing System Business Day before the relevant due date for payment, where "Clearing System Business Day" means (i) in respect of a Global Note held on behalf of Euroclear or Clearstream, Luxembourg, a day when Euroclear or Clearstream, Luxembourg is open for business, and (ii) in respect of a Global Note held on behalf of DTC, a day when DTC is open for business.

Meetings

The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.

Trustee's Powers

In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) principal in respect of any Notes is not paid when due and payable.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions."

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "Transfer Restrictions," or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-entry Procedures for the Global Notes

For each series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "—Settlement and Transfer of Notes."

Euroclear and Clearstream, Luxembourg

The Regulation S Global Notes representing the Regulation S Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Notes representing the Rule 144A Notes will have a CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other

institutions that clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**") through organizations that are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerized book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organizations that are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "Exchange for Definitive Notes," DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note, as the case may be (subject to the certification procedures provided in the agency agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the relevant Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and

Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the agency agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the relevant Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the relevant Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee nor any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing then-operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisors.

TAX CONSIDERATIONS

Certain Tax Considerations in the Russian Federation

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes, as well as taxation of payments under the Guarantee. The summary is based on the laws of Russia in effect on the date of this prospectus. This summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal authorities of the Russian Federation. Nor does this summary seek to address the availability of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties involved in claiming and obtaining such double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes in their particular circumstances. No representations with respect to the Russian tax consequences to any particular Noteholder are made hereby.

General

The provisions of the Russian Tax Code applicable to Noteholders and transactions with the Notes are uncertain and lack interpretive guidance. Both the substantive provisions of the Russian Tax Code applicable to securities and financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and tax systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

For the purposes of this summary, a "**Non-resident Noteholder**" means:

- an individual Noteholder who is present in Russia for an aggregate period of less than 183 days (including days of arrival to Russia and including days of departure from Russia) in any period comprising 12 consecutive months. Presence in Russia for tax residency purposes is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education; or
- a legal entity or organization, in each case not organized under Russian law, which purchases, holds and disposes of the Notes otherwise than through a permanent establishment in Russia (as defined by Russian tax law).

A "**Resident Noteholder**" means any Noteholder (including any individual and any legal entity or organization) who does not qualify as a Non-resident Noteholder. Russian tax residency rules may be affected by an applicable double tax treaty. Based on published comments by the Russian authorities, it is anticipated that the Russian tax residency rules applicable to legal entities may change in the future.

Non-Resident Noteholders

A Non-resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and repayment of principal received from the Issuer in respect of the Notes.

According to Russian tax legislation, the taxation of the proceeds from a disposal of the notes of a Non-resident Noteholder who is an individual will depend on whether this income is received from Russian or non-Russian sources. Russian tax law gives no clear indication as to how the sale of securities should be sourced, other than that income from the sale of securities "in Russia" is Russian-source. As there is no further definition of what should be considered to be a sale "in Russia," the Russian tax authorities have a certain level of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the bonds, or other similar criteria.

If proceeds from a disposal of the Notes are received from a source within Russia, a Non-resident Noteholder who is an individual will generally be subject to personal income tax at a rate of 30% on the gain from such disposal (the gain generally being calculated as the gross proceeds from such disposal less any available cost deduction which includes the purchase price of the Notes), subject to any available double tax treaty relief. In this regard, if the Notes are disposed of to a resident of Russia or to a non-resident of Russia with a tax registered presence in Russia, and proceeds from such disposal are received from a source within Russia, the gains on such disposal are likely to be treated as Russian source income for Russian personal income tax purposes. There is some uncertainty regarding the treatment of the portion of proceeds (if any) attributable to accrued interest. Subject to reduction or elimination pursuant to the provisions of an applicable tax treaty relating to interest income, proceeds attributable to accrued interest may be taxed at a rate of 30%, irrespective of any capital gain or loss on the disposal of the

Notes. In addition, there is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of Notes, the currency of sale of Notes and rubles. The tax may be withheld at source of payment or, if the tax is not withheld, then the Non-resident Noteholder may be liable to file a tax return and pay the tax.

With respect to a Non-resident Noteholder that is a legal entity or organization, the Russian tax legislation provides that the proceeds from a sale, redemption or disposal of the notes should not be subject to Russian withholding tax even if these proceeds are received from a source within Russia. However, there is some residual uncertainty regarding the treatment of the portion of proceeds, if any, that is attributable to accrued interest. If the payment upon sale or other disposal of the notes is received from within Russia, accrued interest may be distinguished from the total gain and be subject to Russian withholding tax at 20%. The separate taxation of the interest accrued may create a tax liability in relation to interest even in a situation of a capital loss on the disposal of notes. The withholding tax on any part of the payment relating to interest may potentially be reduced or eliminated under the terms of an applicable double taxation treaty depending on the tax residence of the Non-resident Noteholder.

Double Tax Treaty Relief

Where proceeds from the disposition of the Notes are received from a Russian source, withholding tax on interest or on capital gains (if applicable under Russian domestic tax law) may be reduced or eliminated in accordance with the provisions of an applicable double tax treaty. Advance treaty relief should be available for those eligible, subject to the requirements of the laws of the Russian Federation. In order for the Non-resident Noteholder, whether an individual, legal entity or organization, to enjoy the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed. Currently, a Non-resident Noteholder would need to provide a certificate of tax residence issued by the competent tax authority of the relevant treaty country. In addition, a Non-resident Noteholder who is an individual must provide appropriate documentary proof of tax payments outside of Russia on income with respect to which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, individuals in practice may not be able to obtain treaty benefits on receipt of proceeds from a source within Russia and obtaining a refund can be extremely difficult.

Non-resident Noteholders who are individuals and Non-resident Noteholders that are legal entities or organizations should consult their own tax advisers with respect to the tax consequences on the disposal of the Notes and on the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposal of the Notes.

Resident Noteholders

A Resident Noteholder will be subject to all applicable Russian taxes in respect of gains from disposition of the Notes and interest received on the Notes.

Taxation of Payments under the Guarantees

Payments under the Guarantee related to interest on the Notes are likely to be characterized as Russian source income. Accordingly, such payments should be subject to withholding tax in Russia at a rate of 30% in the event the payment is made to a Non-resident Noteholder who is an individual, or at a rate of 20% in the event that the payment under the Guarantee on the Notes is made to a Non-resident Noteholder that is a legal entity or organization that is not organized under Russian laws and which holds and disposes of the Notes otherwise than through a permanent establishment in Russia, unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty. Additionally, because the law is unclear and the Russian tax authorities have never issued any guidance on the matter, there can be no assurance that such withholding tax would not be imposed upon the full payment under the Guarantee, including with respect to the principal amount of the Notes.

Payments under the Guarantee should not be subject to Russian VAT.

Certain Tax Considerations in the United Kingdom

*The comments below are of a general nature based on current United Kingdom tax law and HM Revenue & Customs ("**HMRC**") published practice and are not intended to be exhaustive. They deal only with (a) United Kingdom withholding tax in respect of payments of interest on the Notes and (b) certain United*

Kingdom rules relating to information that may need to be provided to HMRC in respect of payments of interest on the Notes. They do not deal with any other tax consequences of acquiring, holding or disposing of the Notes. The United Kingdom tax treatment of prospective holders of Notes depends on their individual circumstances and may be subject to change in the future, possibly having retroactive effect. Prospective holders of Notes who may be subject to tax in a jurisdiction other than the United Kingdom or who are in doubt as to their own tax position should consult their professional advisers.

Withholding Tax

Payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom tax.

Information provision requirements in respect of the Notes

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual or a partnership containing individuals, or (ii) paying amounts due on redemption of any Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual or a partnership containing individuals, may be required to provide certain information to HMRC regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in relation to the payments contemplated in (ii) above, HMRC published practice indicates that HMRC will not exercise its power to obtain information where such amounts are paid on or before 5 April 2011. There is no guarantee that equivalent guidance will be published in respect of future years.

In addition, the reporting obligations under Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), as implemented in the United Kingdom, may apply to payments on the Notes made through persons in the United Kingdom.

Certain Tax Considerations in the United States

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, NOTEHOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL INCOME TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY NOTEHOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON NOTEHOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) NOTEHOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a summary of certain U.S. federal income tax considerations material to the purchase, ownership and disposition of the Notes. This summary does not describe all of the tax consequences that may be relevant to a U.S. Holder (as defined below) in light of such holder's particular circumstances. For example, it does not address considerations that may be relevant to U.S. Holders that are subject to special tax rules, such as banks, thrifts, real estate investment trusts, regulated investment companies, insurance companies, dealers in securities or currencies, tax-exempt investors, holders that have a functional currency other than the U.S. dollar, or certain U.S. expatriates. This summary also does not discuss Notes held as part of a hedge, straddle, conversion, "synthetic security" or other integrated transaction. This summary addresses only Noteholders that purchase the Notes at the issue price in connection with their original issuance and that hold the Notes as capital assets. It does not include any description of any alternative minimum tax consequences or the tax laws of any state or local government or of any foreign government that may be applicable to the Notes.

If a partnership holds the Notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Notes should consult its own tax advisor with regard to the United States federal income tax treatment of an investment in the Notes.

This summary is based upon the Code, Treasury regulations, Internal Revenue Service ("**IRS**") rulings and pronouncements and administrative and judicial decisions currently in effect, all of which are subject to change (possibly with retroactive effect) or possible differing interpretations.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS TO DETERMINE THE ANTICIPATED TAX CONSEQUENCES TO THEM OF HOLDING THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER U.S. FEDERAL, STATE, LOCAL, AND NON-U.S. TAX LAWS AND POSSIBLE CHANGES IN TAX LAWS.

For the purposes of this summary, a "**U.S. Holder**" is a beneficial owner of Notes that is an individual who is a citizen or resident of the United States, a U.S. domestic corporation or any other person that is subject to U.S. federal income tax on a net income basis in respect of its investment in the Notes.

Characterization of the Notes

The following summary assumes that the Notes will be treated as indebtedness for U.S. federal income tax purposes.

U.S. Holders

Payments of Interest

Interest payments (including any foreign withholding tax imposed on, and any Additional Amounts paid with respect to, such payments) on the Notes generally will be taxable to a U.S. Holder as ordinary interest income at the time that such payments are paid or accrued in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

Payments on the Notes generally will constitute foreign-source income for U.S. federal income tax purposes and will be categorized as "passive category income" (or, in the case of certain U.S. Holders, "general category income") for purposes of computing the foreign tax credit allowable under the U.S. federal income tax laws. A U.S. Holder may be able, subject to certain generally applicable limitations, to claim a foreign tax credit (or, alternatively, a deduction if the U.S. Holder has elected to deduct all foreign income taxes for that taxable year) for any Russian withholding taxes imposed on payments of interest. The rules relating to foreign tax credits and the timing thereof are complex, and U.S. Holders should consult their tax advisors with regard to the availability of foreign tax credits and the application of the foreign tax credit limitations to their particular situation.

Effect of Russian Withholding Taxes

As discussed in "Certain Tax Considerations in the Russian Federation," under current law payments made by the Guarantor under the Guarantee to Noteholders who are not Russian residents may become subject to Russian withholding taxes. In this circumstance, the Guarantor may become liable for the payment of Additional Amounts to U.S. Holders (see "Terms and Conditions of the Notes—Taxation") so that U.S. Holders receive the same amounts they would have received had no Russian withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders would be treated as having received the amount of Russian taxes withheld by the Issuer with respect to a Note, and as then having paid over the withheld taxes to the Russian taxing authorities. As a result of this rule, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Issuer with respect to the payment.

Sale, Exchange, Redemption or Other Disposition

A U.S. Holder will recognize taxable gain or loss upon the sale, exchange, redemption or other disposition of a Note, in an amount equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received upon such sale, exchange, redemption or other disposition (except to the extent that such cash or property is attributable to accrued interest, which amount will be taxable as ordinary income to the extent not previously included in gross income) and (ii) the U.S. Holder's adjusted tax basis therefor. A U.S. Holder's adjusted tax basis in respect of a Note generally will be equal to its original purchase price therefor. Such gain or loss will be U.S.-source capital gain or loss, and will be a long-term capital gain or loss if the U.S. Holder held the Notes for more than one year. Long-term capital gains may be taxed at a lower rate than ordinary income for certain non-corporate U.S. Holders. The deduction of capital losses is subject to limitations.

Substitution of Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. Holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. Holder could be required to recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. Holder's tax basis in the Notes. U.S. Holders should consult their tax advisors concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

Backup Withholding Tax and Information Reporting

Amounts paid to a U.S. Holder in respect of the Notes, and payments of the proceeds of a sale of Notes, paid within the United States or through certain U.S.-related financial intermediaries, are subject to information reporting and may be subject to backup withholding unless the U.S. Holder (i) is an exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. A Noteholder that is not a U.S. Holder generally will not be subject to information reporting or backup withholding, but may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund.

Certain Tax Considerations in Ireland

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes thereon as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Withholding Tax

In general, tax at the standard rate of income tax (currently 20%), is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where certain exemptions apply, in particular, so long as the interest paid on the relevant Note falls within one of the following categories:

Interest paid on a quoted Eurobond

A quoted Eurobond is a security that is issued by a company (such as the Issuer), is listed on a recognized stock exchange (such as the Irish, London or Luxembourg Stock Exchanges) and carries a right to interest. Provided that the Notes are interest bearing and are listed on a recognized stock exchange (such as the London Stock Exchange), interest paid on them can be paid free of withholding tax provided the person by or through whom the payment is made is not in Ireland; or the payment is made by or through a person in Ireland and either:

(i) the Note is held in a clearing system recognized by the Irish Revenue Commissioners; (Euroclear and Clearstream, Luxembourg are, amongst others, so recognized); or

(ii) the person who is the beneficial owner of the quoted Eurobond and who is beneficially entitled to the interest is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form.

Thus, so long as the Notes continue to be quoted on the London Stock Exchange and are held in DTC, Euroclear and/or Clearstream, Luxembourg, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If

the Notes continue to be quoted but cease to be held in a recognized clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland.

Interest paid to a person resident in a relevant territory

If, for any reason, the quoted Eurobond exemption referred to above ceases to apply, interest payments may still be made free of withholding tax provided that the recipient is not a company which receives the interest in connection with a trade or business carried on by it through a branch or agency in Ireland and:

(i) the Issuer remains a "qualifying company" as defined in section 110 of the Taxes Consolidation Act, 1997 ("**TCA**") and the Noteholder is a person which is resident in a relevant territory at the time of the payment. A relevant territory is a Member State of the European Union (other than Ireland) or a country with which Ireland has a double taxation agreement in force by virtue of section 826 (1) of the TCA or that is signed and which will come into force once all ratification procedures set out in section 826 (1) TCA have been completed ("**Relevant Territory**"), or

(ii) the interest is paid in the ordinary course of the Issuer's business and the Noteholder is a company which is either (A) resident in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory or (B) in respect of the interest, exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come into force once all ratification procedures have been completed,

The Issuer must be satisfied that the respective terms of the exemptions are satisfied. The test of residence in each case is determined by reference to the law of the Relevant Territory in which the Noteholder claims to be resident. For other holders of Notes, interest may be paid free of withholding tax if the Noteholder is resident in a double tax treaty country and under the provisions of the relevant treaty with Ireland such Noteholder is exempt from Irish tax on the interest and clearance in the prescribed form has been received by the Issuer before the interest is paid.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20%) from interest on any Note, where such interest is collected or realized by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax and Levies

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions, the health levy and the income levy in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the health levy and the income levy in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. First, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of section 110 of the TCA, the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its business are exempt from income tax provided the recipient is not resident in Ireland and is a company which is either resident in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come into force

once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory. For these purposes, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the health levy and the income levy.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes that does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, the charge to the health levy and the income levy. In the past the Irish Revenue Commissioners have not pursued liability to tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A holder of Notes will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 25% if either (i) the disponer or the donee/ successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/ successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (*i.e.*, if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) to the Irish Stamp Duties Consolidation Act, 1999 assuming the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

EU Savings Directive

Under the EU Savings Directive, each Member State of the European Union is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Austria and Luxembourg will (unless during such period they elect otherwise) instead operate a withholding system in relation to such payments. Under such a withholding system, the recipient of the interest payment must be allowed to elect that certain provision of information procedures should be applied instead of withholding. The current rate of withholding is 20%, and it will be increased to 35% with effect from July 1, 2011. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted or agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to an individual beneficial owner resident in, or certain limited types of entity established in, a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in a Member State

to an individual beneficial owner resident in, or certain limited types of entity established in, one of those countries or territories.

A proposal for amendments to the EU Savings Directive has been published, including a number of suggested changes, which, if implemented, would broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment under a Note were to be made by a person in a Member State or another country or territory that has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to the EU Savings Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay Additional Amounts under the terms of such Note as a result of the imposition of such withholding tax. The Issuer is, however, required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive or any such law.

SUBSCRIPTION AND SALE

Deutsche Bank AG, London Branch, J.P. Morgan Securities Ltd. and VTB Capital plc (the "**Joint Lead Managers**" or "**Managers**") have, pursuant to a Subscription Agreement dated October 22, 2010 (the "**Subscription Agreement**"), jointly and severally agreed with the Issuer and Sovcomflot, subject to the satisfaction of certain conditions, to subscribe for the Notes at 100% of the principal amount of the Notes less any commissions and expenses required to be deducted in accordance with the Subscription Agreement. In addition, the Issuer and the Guarantor have agreed to pay or reimburse the Managers for their costs, fees and expenses in connection with the issue of the Notes. The Issuer and the Guarantor have in the Subscription Agreement agreed to indemnify the Managers against certain liabilities incurred in connection with the issue of the Notes. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Managers and their respective affiliates have performed and are expected to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders).

Selling Restrictions

The United States

The Notes and the Guarantee (the "**Securities**") have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has severally and not jointly represented that it has not offered or sold, and agreed that it will not offer or sell, any Notes constituting part of its allotment except in accordance with Rule 903 of Regulation S or Rule 144A under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Securities, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

Terms used in this paragraph and not otherwise defined herein have the meanings given to them by Regulation S.

Each Manager has severally and not jointly represented, warranted and undertaken that neither it nor any of its affiliates, nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with any offer and sale of the Securities in the United States.

Each Manager severally and not jointly represents that it has not entered and agrees that it will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Notes, except with its affiliates or with the prior written consent of the Issuer and the Guarantor.

The United Kingdom

Each Manager has, severally and not jointly, represented, warranted and undertaken that:

- it has complied and will comply with all applicable provisions of the FSMA and the regulations adopted thereunder with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or Sovcomflot.

The Russian Federation

Each of the Managers has, severally and not jointly, represented, warranted and agreed that the Notes have not been and will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Ireland

Each Manager has, severally and not jointly, represented, warranted and agreed that:

- it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), including, without limitation, Regulations 7 and 152 thereof or any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;
- it will not underwrite the issue of, or place, any Notes, otherwise than in conformity with the provisions of the Central Bank Acts 1942—1998 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;
- it will not underwrite the issue of, or place, or do anything in Ireland in respect of any Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Financial Regulator; and
- it will not underwrite the issue of, place or otherwise act in Ireland in respect of any Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Financial Regulator.

Republic of Italy

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, each Manager has represented and agreed, severally and not jointly, that it has not offered, sold or distributed, and will not offer, sell or distribute any Notes or any offer document in the Republic of Italy ("**Italy**") except:

- (a) to qualified investors (investitori qualificati), pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the "Consolidated Financial Services Act") and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the "CONSOB Regulation"), all as amended; or
- (b) in any other circumstances where an express exemption from compliance with the restrictions on offers to the public applies, as provided under Article 100 of the Consolidated Financial Services Act and Article 34-ter of the CONSOB Regulation.

Moreover, and subject to the foregoing, each Manager severally and not jointly acknowledges that any offer, sale or delivery of the Securities or distribution of copies of this Prospectus or any other document relating to the Securities in Italy under (a) or (b) above must be:

- made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Consolidated Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "Banking Act"), CONSOB Regulation No. 16190 of 29 October 2007, all as amended;
- in compliance with Article 129 of the Banking Act and the implementing guidelines, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy; and
- in compliance with any securities, tax, exchange control and any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time, inter alia, by CONSOB or the Bank of Italy.

Hong Kong

Each Manager has, severally and not jointly, represented, warranted and undertaken that:

- it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

- it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Manager has, severally and not jointly, represented, warranted and undertaken that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- where no consideration is or will be given for the transfer;
- where the transfer is by operation of law; or
- as specified in Section 276(7) of the SFA.

Switzerland

The Notes may not and will not be publicly offered, sold, advertised, distributed or re-distributed, directly or indirectly, in or from Switzerland, no solicitation for investments in the Notes may be extended, distributed or otherwise made available in Switzerland in any way that could constitute a public offering pursuant to articles 652a or 1156 of the Swiss Code of Obligations. Neither this Prospectus nor any other material relating to the Notes constitutes an offering prospectus pursuant to articles 652a and 1156 of the Swiss Code of Obligations, and they may not comply with the information standards required thereunder or under the Directive for Notes of Foreign Borrowers of the Swiss Bankers Association. The Issuer has not applied for a listing of the Notes on the SIX Swiss Exchange Ltd. or any other regulated securities market in Switzerland, and consequently, the information presented in this document does not necessarily comply with the information standards set out in the listing rules of the SIX Swiss Exchange Ltd. Neither this Prospectus nor any other offering or marketing material relating to the Issuer or the Notes have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Notes will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

This Prospectus is personal to each offeree and does not constitute an offer to any person. The Prospectus may only be used by those persons to whom it has been handed out in connection with the provision of the Notes described herein and may neither directly nor indirectly be distributed or made available to other persons without the express consent of the Issuer. It may not be copied and/or distributed to the public in Switzerland.

General

No action has been or will be taken in any jurisdiction by the Managers, the Issuer or the Guarantor that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

LISTING AND GENERAL INFORMATION

The Notes

The Regulation S Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following reference numbers:

	ISIN	Common Code
Regulation S Global Note	XS0552679879	055267987

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

The Rule 144A Global Note has been accepted for clearance through the facilities of DTC, under the following reference numbers:

	ISIN	Common Code	CUSIP
Rule 144A Global Note	US78403LAA08	055356904	78403LAA0

The address of DTC is 55 Water Street, New York, New York 10041-0099, United States of America.

The listing of the Notes on the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Regulated Market will be granted on or about October 27, 2010, subject only to the issue of the Global Notes. Prior to official listing and admission to trading, however, dealing will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in U.S. dollars and for delivery on the third working day after the day of the transaction.

Noteholders should note that the Trustee may act, or not act, and rely on (and shall have no liability for doing so) certificates or reports provided by the auditors of the Issuer or Sovcomflot or any other expert, whether or not addressed to the Trustee and whether or not any such certificate or report is subject to any limit on the liability of such auditors or other expert (whether by reference to a monetary cap or by reference to the methodology to be employed in producing the same).

Sovcomflot and the Issuer have obtained all necessary consents, approval, authorizations or other orders for the issue of the Notes and other documents to be entered into by the Issuer in connection with the issue of the Notes in England and Wales.

The yield of the Notes is 5.375% on an annual basis. The yield is calculated as of the Closing Date on the basis of the issue price. It is not an indication of future yield.

Changes

There has been no significant change in the financial or trading position of the Issuer since August 16, 2010, such date being the date of incorporation of the Issuer, or in the financial or trading position of the Group or Sovcomflot since June 30, 2010 such date being the end of the last financial period for which interim financial information of the Group has been published

There has been no material adverse change in the prospects of the Issuer since August 16, 2010, such date being the date of incorporation of the Issuer, or in the prospects of Sovcomflot since December 31, 2009, such date being the date of the Group's last published audited financial statements.

Miscellaneous

The expenses of, and incidental to, the offering and admission to trading on the Regulated Market ("**Admission**") payable by the Issuer, including the London Stock Exchange fee, professional fees and the costs of preparation, printing and distribution of this Prospectus, are estimated to amount to approximately US$ 3 million (exclusive of recoverable VAT).

No Notes have been marketed to, nor are available for purchase in whole or in part by, the public in the United Kingdom or elsewhere in conjunction with the offering. This Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

No application is currently intended to be made for the Notes to be admitted to listing or dealt with on any exchange other than the Stock Exchange.

Documents Available for Inspection

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of not less than 14 days following Admission at the offices of the Issuer at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland:

- the Memorandum and Articles of Association of the Issuer and Sovcomflot;
- Sovcomflot's Financial Statements;
- the Trust Deed, which includes the form of the Global Notes and the Definitive Notes;
- the agency agreement; and
- this Prospectus.

Material Contracts

Neither Sovcomflot nor any of its subsidiaries (including the Issuer) is a party to any material contracts that are not entered into in the ordinary course of the relevant entity's business, which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to the Noteholders in respect of the Notes.

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OAO SOVCOMFLOT
AND ITS SUBSIDIARY CORPORATIONS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30th June 2010

OAO Sovcomflot

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We have been engaged by the company to review the condensed set of consolidated financial statements of OAO Sovcomflot and its subsidiaries which comprises the condensed consolidated statement of financial position as at 30 June 2010, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows for the six month period then ended and the related notes on pages 9 to 14.

This report is made to the company in accordance with the terms of our engagement. Our work has been undertaken so that we might review the condensed set of consolidated financial statements that we have been engaged to review, report to you that we have done so, and state those matters that we have agreed to state to you in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than company, for our work, for this report, or for the conclusions we have reached.

Management's responsibility

Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". This standard requires that we plan and perform the review to obtain moderate assurance as to whether the condensed financial statements are free of material misstatements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements does not present fairly, in all material respects, the financial position of the group as at 30 June 2010 and of its financial performance and its cash flows for the six months then ended in accordance with International Accounting Standard 34.

Moore Stephens LLP

150 Aldersgate Street,
London, EC1A 4AB

MOORE STEPHENS LLP

Chartered Accountants

27th August 2010

OAO Sovcomflot

Condensed Consolidated Statement of Financial Position – 30th June 2010
(Expressed in U.S.$'000)

	Note	30/06/2010	30/06/2009	31/12/2009
Assets				
Non-current assets				
Fleet	2	4,946,275	4,402,755	4,766,487
Tonnage under construction	3	347,109	734,203	506,405
Other fixed assets		46,250	42,277	45,369
Investment property		6,064	7,120	6,529
Other fixed assets under construction		3,681	3,077	2,878
Investments		4,362	9,315	4,764
Intangible assets		22,469	22,835	25,654
Finance lease receivables	4	71,748	30,379	69,692
Retirement benefit plans		3,441	3,722	3,590
Deferred tax assets	10	4,090	1,560	2,236
		5,455,489	5,257,243	5,433,604
Current assets				
Inventories		49,107	38,291	48,127
Trade and other receivables	5	251,604	173,920	212,903
Finance lease receivables	4	924	572	786
Current tax receivable		3,099	2,908	1,864
Investments		2,597	4,811	3,215
Cash and cash equivalents	7	400,413	334,050	335,695
		707,744	554,552	602,590
Non-current assets held for sale		-	-	31,446
Total current assets		707,744	554,552	634,036
Total assets		6,163,233	5,811,795	6,067,640
Equity and liabilities				
Capital and reserves				
Share capital		405,012	405,012	405,012
Reserves		2,504,146	2,343,880	2,466,314
Equity attributable to the owners of the parent		2,909,158	2,748,892	2,871,326
Non-controlling interest		203,226	221,446	203,568
Total equity		3,112,384	2,970,338	3,074,894
Non-current liabilities				
Secured bank loans	7	2,406,144	2,111,099	2,334,698
Finance lease liabilities	8	13,787	104,666	57,732
Provision for onerous contracts		-	29,672	2,808
Derivative financial instruments	9	101,235	65,171	57,959
Retirement benefit obligations		7,972	7,710	8,733
Current tax payable		1,926	1,920	1,987
Deferred tax liabilities	10	7,475	14,271	12,495
		2,538,539	2,334,509	2,476,412
Current liabilities				
Trade and other payables	6	206,791	208,353	175,987
Secured bank loans	7	161,285	202,237	196,878
Finance lease liabilities	8	48,365	13,265	54,099
Current tax payable		8,723	8,308	8,351
Provision for onerous contracts		11,795	6,365	10,110
Derivative financial instruments	9	75,351	68,420	70,909
		512,310	506,948	516,334
Total equity and liabilities		6,163,233	5,811,795	6,067,640

The accompanying notes are an integral part of the condensed consolidated financial statements. The condensed consolidated financial statements were approved by the Executive Board and authorised for issue on 27th August 2010.

S.O. Frank
Chairman of the Executive Board

N.L. Kolesnikov
Member of the Executive Board

OAO Sovcomflot

Condensed Consolidated Income Statement
For the period ended 30th June 2010
(Expressed in U.S.$'000)

	Note	01/01/2010-30/06/2010	01/01/2009-30/06/2009	Year ended 31/12/2009
Freight and hire receivable		678,454	611,919	1,222,415
Voyage expenses and commissions		(181,964)	(120,726)	(290,101)
Time charter equivalent revenues		496,490	491,193	932,314
Direct operating expenses				
Vessels' running costs		153,832	141,191	287,934
Vessels' drydock cost amortisation	2	20,019	21,020	42,512
Charter hire payments		7,372	7,005	14,112
		181,223	169,216	344,558
Profit on vessels' trading		315,267	321,977	587,756
Other operating expenses				
Depreciation and amortisation				
Vessels' depreciation	2	102,646	93,361	187,907
Vessels' impairment provision	2	7,588	13,894	24,428
Other depreciation		2,541	2,278	5,112
Investment property depreciation		487	489	966
Intangible assets' amortisation		4,197	4,043	8,087
		117,459	114,065	226,500
Allowance for credit losses		139	(22)	158
General and administrative expenses		42,550	37,166	80,130
Total other operating expenses		160,148	151,209	306,788
Profit from vessels' operations		155,119	170,768	280,968
(Provision) / reversal for impairment of tonnage under construction	3	-	(950)	13,964
(Provisions) / reversal of onerous contract		-	(1,050)	22,069
Gain / (loss) on sale of assets		3,987	(2,442)	(2,395)
Gain on disposal of investments		-	141	406
Net other operating income		3,676	4,819	8,983
Share of (losses) / gains in associated undertakings		(434)	1,131	(3,375)
Operating profit		162,348	172,417	320,620
Other (expenses) / income				
Interest expense		(50,617)	(47,803)	(102,825)
Bank and other interest receivable		8,249	6,392	14,718
Other non-operating income / (expenses)		2,476	(2,196)	(1,563)
(Loss) / gain on hedging instruments	9	(1,558)	2,961	3,349
(Loss) / gain on derivative financial instruments held for trading	9	(7,805)	9,568	7,881
Impairment of goodwill		-	(3,074)	(3,074)
Differences on foreign exchange		(932)	(10,677)	(6,263)
Net other expenses		(50,187)	(44,829)	(87,777)
Profit before income taxes		112,161	127,588	232,843
Income taxes	10	(939)	(10,785)	(16,005)
Profit for the period		111,222	116,803	216,838
Profit attributable to:				
Owners of the parent		107,053	107,863	202,921
Non-controlling interest		4,169	8,940	13,917
		111,222	116,803	216,838

The accompanying notes are an integral part of the condensed consolidated financial statements.

OAO Sovcomflot

Condensed Consolidated Statement of Comprehensive Income
For the period ended 30th June 2010
(Expressed in U.S.$'000)

	Note	01/01/2010-30/06/2010	01/01/2009-30/06/2009	Year ended 31/12/2009
Profit before income taxes		111,222	116,803	216,838
Other comprehensive income:				
Exchange differences on translating foreign operations		(1,755)	1,263	2,879
Derivative financial instruments	9	(38,355)	64,397	74,785
Available for sale financial assets		(597)	376	1,139
Other comprehensive (expense) / income for the period, net of tax		(40,707)	66,036	78,803
Total comprehensive income for the period		70,515	182,839	295,641
Total comprehensive income attributable to:				
Owners of the parent		66,564	173,988	281,280
Non-controlling interest		3,951	8,851	14,361
		70,515	182,839	295,641

The accompanying notes are an integral part of the condensed consolidated financial statements.

OAO Sovcomflot

Condensed Consolidated Statement of Changes in Equity
For the period ended 30th June 2010
(Expressed in U.S.$'000)

	Share capital	Share premium	Group reconstruction reserve	Hedging reserve	Fair value reserve
Balance 1st January 2009	405,012	818,845	(834,490)	(157,562)	104
Total comprehensive income	-	-	-	64,317	318
Dividends (note 6)	-	-	-	-	-
Effect of buy back of shares by JSC Novoship	-	-	-	(221)	19
Balance 30th June 2009	405,012	818,845	(834,490)	(93,466)	441
Total comprehensive income	-	-	-	10,355	624
Effect of buy back of shares by JSC Novoship	-	-	-	(29)	44
Balance 31st December 2009	405,012	818,845	(834,490)	(83,140)	1,109
Total comprehensive income	-	-	-	(38,410)	(517)
Dividends (note 6)	-	-	-	-	-
Effect of buy back of shares by JSC Novoship	-	-	-	(1)	1
Balance 30th June 2010	405,012	818,845	(834,490)	(121,551)	593

The accompanying notes are an integral part of the condensed consolidated financial statements.

OAO Sovcomflot

Condensed Consolidated Statement of Changes in Equity (Continued)
For the period ended 30th June 2010
(Expressed in U.S.$'000)

	Currency reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
Balance 1st January 2009	(2,584)	2,238,364	2,467,689	349,274	2,816,963
Total comprehensive income	1,490	107,863	173,988	8,851	182,839
Dividends (note 6)	-	(31,988)	(31,988)	(2,885)	(34,873)
Effect of buy back of shares by JSC Novoship	(431)	139,836	139,203	(133,794)	5,409
Balance 30th June 2009	(1,525)	2,454,075	2,748,892	221,446	2,970,338
Total comprehensive income	1,255	95,058	107,292	5,510	112,802
Effect of buy back of shares by JSC Novoship	170	14,957	15,142	(23,388)	(8,246)
Balance 31st December 2009	(100)	2,564,090	2,871,326	203,568	3,074,894
Total comprehensive income	(1,562)	107,053	66,564	3,951	70,515
Dividends (note 6)	-	(29,712)	(29,712)	(1,481)	(31,193)
Effect of buy back of shares by JSC Novoship	(15)	995	980	(2,812)	(1,832)
Balance 30th June 2010	(1,677)	2,642,426	2,909,158	203,226	3,112,384

The accompanying notes are an integral part of the condensed consolidated financial statements.

OAO Sovcomflot

Condensed Consolidated Statement of Cash Flows
For the period ended 30th June 2010
(Expressed in U.S.$'000)

	01/01/2010-30/06/2010	01/01/2009-30/06/2009	Year ended 31/12/2009
Operating Activities			
Cash received from freights and hire of vessels	648,310	633,760	1,246,178
Other cash receipts	14,110	16,202	42,632
Cash payments for voyage and running costs	(346,552)	(267,068)	(613,316)
Other cash payments	(55,636)	(54,679)	(145,034)
Cash generated from operations	260,232	328,215	530,460
Interest received	1,572	3,948	7,138
Taxation paid	(7,587)	(15,192)	(23,607)
Net cash inflow from operating activities	254,217	316,971	513,991
Investing Activities			
Acquisition of investments	-	-	177
Acquisition of subsidiary net of cash acquired	(838)	-	(31,961)
Acquisition of joint ventures net of cash acquired	-	-	(7,256)
Proceeds from sale of investments	-	495	901
Expenditure on fleet	(2,181)	(7,051)	(9,652)
Acquisition of vessel	-	-	(20,011)
Expenditure on drydock	(11,710)	(23,287)	(34,130)
Expenditure on tonnage under construction	(195,181)	(191,603)	(360,366)
Purchase of other fixed assets	(7,431)	(5,352)	(14,107)
Proceeds on sale of vessels	49,514	11,122	11,122
Proceeds on sale of other fixed assets	321	180	180
Capital element received on finance leases	458	10	1,493
Interest received on finance leases	5,436	80	3,005
Buy back of shares	(1,680)	(30,421)	(34,287)
Decrease in term deposits	21	3,209	5,568
Net cash outflow from investing activities	(163,271)	(242,618)	(489,324)
Financing Activities			
Loans drawn down	146,500	98,103	368,063
Repayment of loans	(111,758)	(79,653)	(204,198)
Financing costs	(637)	(1,585)	(3,151)
Capital element of finance leases	(6,294)	(4,764)	(10,862)
Interest paid on loans	(47,085)	(41,807)	(92,936)
Interest paid on finance leases	(3,560)	(3,342)	(7,090)
Dividends paid	-	(2,573)	(35,314)
Net cash (outflow) / inflow from financing activities	(22,834)	(35,621)	14,512
Increase in Cash and Cash Equivalents	68,112	38,732	39,179
Cash and Cash Equivalents at Beginning of Period	335,695	298,119	298,119
Effect of exchange rate changes on cash and cash equivalents	(3,394)	(2,801)	(1,603)
Cash and Cash Equivalents at End of Period	400,413	334,050	335,695

Non - cash transactions

During the period ended 30th June 2010 the group did not exercise its option for the acquisition of one product tanker and consequently both the outstanding finance lease liability and the carrying value of the vessel were derecognised on expiry of the time charter agreement (see notes 2 and 4).

The accompanying notes are an integral part of the condensed consolidated financial statements.

OAO Sovcomflot

Notes to the Condensed Consolidated Financial Statements – 30th June 2010

1. **Basis of Preparation and Accounting Policies**

OAO Sovcomflot ("Sovcomflot") was registered in Russia on 18th December 1995, as the successor undertaking to AKP Sovcomflot, in which the Russian Federation holds 100% of the issued shares.

The company, through its subsidiaries and joint ventures, is engaged in ship owning and operating on a world-wide basis with a fleet of 137 vessels at the period end, comprising 120 tankers, 4 chartered in tankers, 8 gas carriers, 3 multi-purpose dry cargo vessels, 1 bulk carrier and 1 ice breaking supply vessel.

The company's registered office address is 3A, Moika River Embankment, Saint Petersburg 191186, Russian Federation and its head office is located at 6 Gasheka Street, Moscow 125047, Russian Federation. The group's fleet is managed by JSC Novoship, Unicom Management Services (Cyprus) Limited, Unicom Management Services (St. Petersburg) Ltd and W.W. Marpetrol S.A.

Statement of compliance

The condensed consolidated financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standard (IFRS) - IAS 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the group for the year ended 31st December 2009.

Significant accounting policies

Except as described below, the accounting policies applied by the group in these condensed consolidated financial statements are the same as those applied by the group in its consolidated financial statements for the year ended 31st December 2009.

During the 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 2010.

The adoption of the Standards and Interpretations issued by the IASB has led to a change in the Business Combinations and Goodwill accounting policies.

IFRS 3 ("Business Combinations") has been extensively revised. If the group undertakes business combinations in the future, this will have a significant impact on the accounting treatments adopted. Due to the transitional provisions, there will be no effect on previous combinations.

The main changes likely to affect the group are to:

- require transactions costs to be taken to profit or loss when incurred;
- crystallise contingent consideration at the acquisition date, with any future changes reflected in profit or loss; and
- require redetermination of values where the group acquires a controlling interest in any entity in which an interest was already held.

There are associated changes to IAS 27 ("Consolidated and Separate Financial Statements") which are likely to impact on the group as follows:

- all changes in the parent's interest in an entity that is a subsidiary before and after the change will be accounted for as equity transactions;
- all relevant losses will be attributed to non-controlling interests (previously minority interests), even if it results in the non-controlling interests having a deficit balance.

Seasonality of operations

Although some of the group's operations may sometimes be affected by seasonal factors such as general weather conditions, management do not feel this has a material effect on the performance of the group when comparing the interim results to those achieved in the second half of the year.

Changes in estimates

The preparation of the condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The critical accounting judgements and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31st December 2009.

2. **Fleet**

	Vessels U.S.$'000	Drydock U.S.$'000	Total Fleet U.S.$'000
Cost			
At 1st January 2009	5,178,183	154,829	5,333,012
Expenditure in period	7,051	24,205	31,256
Transferred from tonnage under construction (note 3)	294,433	5,100	299,533
Disposals	(25,174)	(2,345)	(27,519)
Eliminations	-	(27,239)	(27,239)
At 30th June 2009	5,454,493	154,550	5,609,043
Expenditure in period	2,601	10,385	12,986
Transferred from tonnage under construction (note 3)	367,509	6,400	373,909
Acquired on acquisition of subsidiary	79,311	252	79,563
Acquisition in the period	18,840	1,168	20,008
Acquired on acquisition of joint ventures	37,000	900	37,900
Transferred to non-current assets held for sale	(161,654)	(5,423)	(167,077)
Eliminations	-	(12,814)	(12,814)
At 31st December 2009	5,798,100	155,418	5,953,518
Expenditure in period	1,567	11,653	13,220
Transferred from tonnage under construction (note 3)	347,169	6,800	353,969
Disposals	(97,847)	(2,440)	(100,287)
Eliminations	-	(17,312)	(17,312)
At 30th June 2010	6,048,989	154,119	6,203,108
Depreciation and impairment			
At 1st January 2009	1,049,869	73,036	1,122,905
Charge for the period	93,361	21,020	114,381
Impairment provision	13,894	-	13,894
Disposals	(15,560)	(2,093)	(17,653)
Eliminations	-	(27,239)	(27,239)
At 30th June 2009	1,141,564	64,724	1,206,288
Charge for the period	94,546	21,492	116,038
Impairment provision	10,534	-	10,534
Acquired on acquisition of joint ventures	1,976	640	2,616
Transferred to non-current assets held for sale	(131,730)	(3,901)	(135,631)
Eliminations	-	(12,814)	(12,814)
At 31st December 2009	1,116,890	70,141	1,187,031
Charge for the period	102,646	20,019	122,665
Impairment provision	7,588	-	7,588
Disposals	(42,001)	(1,138)	(43,139)
Eliminations	-	(17,312)	(17,312)
At 30th June 2010	1,185,123	71,710	1,256,833
Net book value			
At 30th June 2010	4,863,866	82,409	4,946,275
At 30th June 2009	4,312,929	89,826	4,402,755
At 31st December 2009	4,681,210	85,277	4,766,487

	30/6/2010 U.S.$'000	30/6/2009 U.S.$'000	31/12/2009 U.S.$'000
Market value[1]	5,375,925	4,898,927	4,636,500
Current insured values[1]	7,185,000	6,456,500	6,889,907
Total deadweight tonnage (dwt)[1]	9,983,276	9,105,525	9,558,619

[1] Including group's share in the joint ventures

Included in the group's fleet are vessels held under finance leases with an aggregate carrying value of U.S.$79.8 million (30th June 2009 – U.S.$112.7 million / 31st December 2009 – U.S.$110.2 million).

3. **Tonnage Under Construction**

	30/6/2010 U.S.$'000	30/6/2009 U.S.$'000	31/12/2009 U.S.$'000
Cost			
At 1st January	515,954	897,892	897,892
Expenditure for the period	195,796	191,345	360,366
Transferred to vessels (note 2)	(347,169)	(294,433)	(661,942)
Transferred to drydock costs (note 2)	(6,800)	(5,100)	(11,500)
Transferred to finance lease receivables (note 4)	-	(31,038)	(68,862)
At 30th June / 31st December	357,781	758,666	515,954
Impairment provision			
At 1st January	9,549	17,813	17,813
Allocated to payments made during the period from provision for onerous contracts	1,123	5,700	5,700
Provided / (released) during the period	-	950	(13,964)
At 30th June / 31st December	10,672	24,463	9,549
Carrying amount			
At 30th June / 31st December	347,109	734,203	506,405
Total deadweight tonnage (dwt)	850,860	2,399,690	1,391,860

Vessels delivered during the period ended 30th June 2010 comprised three Suezmax tankers and one Arctic Shuttle tanker.

Tonnage under construction at 30th June 2010 comprised two Suezmax tankers, four Aframax tankers, one Arctic Shuttle tanker, two Escort tugs and two Asphalt carriers scheduled for delivery between July 2010 and February 2011 at a total contracted cost to the group of U.S.$622 million. As at 30th June 2010, U.S.$321 million of the contracted costs had been paid for.

4. **Finance Lease Receivables**

	30/6/2010 U.S.$'000	30/6/2009 U.S.$'000	31/12/2009 U.S.$'000
At 1st January	70,478	-	-
Transferred from tonnage under construction (note 3)	-	31,038	68,862
Finance lease interest receivable	5,436	741	4,948
Finance lease payments receivable	(3,242)	(828)	(3,332)
At 30th June / 31st December	72,672	30,951	70,478
Less current finance lease receivables	(924)	(572)	(786)
Non-current finance lease receivables	71,748	30,379	69,692

5. **Trade and Other Receivables**

	30/6/2010 U.S.$'000	30/6/2009 U.S.$'000	31/12/2009 U.S.$'000
Amounts due from charterers	68,910	57,258	48,540
Allowance for credit losses	(2,906)	(2,851)	(3,041)
	66,004	54,407	45,499
Casualty and other claims	92,274	42,273	82,562
Agents' balances	8,925	6,822	10,236
Other debtors	45,311	47,433	40,289
Prepayments	13,907	12,801	14,417
Voyage suspense account	16,739	5,649	17,272
Accrued income	8,444	4,535	2,628
	251,604	173,920	212,903

6. **Dividends**

Dividends of Rouble 0.47 per share totalling Roubles 920.577 million, equivalent to U.S.$29.712 million were declared and approved on 29th June 2010 and paid on 8th July 2010 (30th June 2009 – Roubles 0.51 per share totalling Roubles 1,000.931 million, equivalent to U.S.$31.988 million were declared and approved on 30th June 2009 and paid on 8th July 2009).

7. **Secured Bank Loans**

The balances of the loans at the period end which include the group's share in the loans of the joint ventures are summarised as follows:

	30/6/2010 U.S.$'000	30/6/2009 U.S.$'000	31/12/2009 U.S.$'000
Repayable			
- within twelve months after the end of the reporting period	161,285	202,237	196,878
- between one to two years	162,572	155,455	161,510
- between two to three years	193,333	156,680	202,865
- between three to four years	803,367	147,374	843,001
- between four to five years	238,265	719,322	167,188
- after more than five years	1,008,607	932,268	960,134
	2,567,429	2,313,336	2,531,576
Less current portion (current liabilities)	(161,285)	(202,237)	(196,878)
Long-term balance (non-current liabilities)	2,406,144	2,111,099	2,334,698

Bank balances include approximately U.S.$116.027 million (30th June 2009 – U.S.$53.542 million / 31st December 2009 – U.S.$77.695 million) secured under loan agreements or other facilities provided by the group's bankers.

8. **Finance Lease Liabilities**

	30/6/2010 U.S.$'000	30/6/2009 U.S.$'000	31/12/2009 U.S.$'000
Repayable			
- within twelve months after the end of the reporting period	48,365	13,265	54,099
- between one to five years inclusive	13,787	104,666	57,732
	62,152	117,931	111,831
Less current portion (current liabilities)	(48,365)	(13,265)	(54,099)
Long-term balance (non-current liabilities)	13,787	104,666	57,732

The group did not exercise its option for the acquisition of one Ice Product tanker and consequently both the outstanding finance lease liability and the carrying value of the vessel were derecognised on expiry of the time charter agreement in June 2010.

9. **Derivative Financial Instruments**

Derivative financial instruments are classified in the statement of financial position as follows:

	30/6/2010 U.S.$'000	30/6/2009 U.S.$'000	31/12/2009 U.S.$'000
Non-current liability	101,235	65,171	57,959
Current liability	75,351	68,420	70,909
	176,586	133,591	128,868

Derivative financial instruments are analysed as follows:

Hedging instruments

	30/6/2010 U.S.$'000	30/6/2009 U.S.$'000	31/12/2009 U.S.$'000
At 1st January	91,990	165,758	165,758
Increase of shareholding in joint ventures	-	-	4,366
Released during the period and credited to other comprehensive income	(17,199)	(78,081)	(36,065)
Provided / (released) during the period and debited / (credited) to other comprehensive income	55,554	13,684	(38,720)
Provided / (released) during the period and debited / (credited) to the income statement	1,558	(2,961)	(3,349)
At 30th June / 31st December	131,903	98,400	91,990

Notes to the Condensed Consolidated Financial Statements – 30th June 2010
(Continued)

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

Classified at fair value through profit or loss

	30/6/2010 U.S.$'000	30/6/2009 U.S.$'000	31/12/2009 U.S.$'000
At 1st January	36,878	44,75	44,759
Provided / (released) during the period and debited / (credited) to the income statement	7,805	(9,568	(7,881)
At 30th June / 31st December	44,683	35,19	36,878

10. **Income Taxes**

	30/6/2010 U.S.$'000	30/6/2009 U.S.$'000	31/12/2009 U.S.$'000
Russian Federation profits tax	6,622	11,858	18,480
Overseas income taxes	1,226	225	(809)
Adjustments recognised in the current period in relation to the income tax of prior period (Russian Federation profit tax)	-	(247)	155
Income tax expense	7,848	11,836	17,826
Deferred tax	(6,909)	(1,051)	(1,821)
Total income tax expense	939	10,785	16,005

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

	Opening balance U.S.$'000	Released / (charged) to income U.S.$'000	Exchange differences U.S.$'000	Closing balance U.S.$'000
At 30th June 2010				
Deferred tax assets	2,236	2,401	(547)	4,090
Deferred tax liabilities	(12,495)	4,508	512	(7,475)
	(10,259)	6,909	(35)	(3,385)
At 30th June 2009				
Deferred tax assets	1,602	(9)	(33)	1,560
Deferred tax liabilities	(15,200)	1,060	(131)	(14,271)
	(13,598)	1,051	(164)	(12,711)
At 31st December 2009				
Deferred tax assets	1,602	710	(76)	2,236
Deferred tax liabilities	(15,200)	1,111	1,594	(12,495)
	(13,598)	1,821	1,518	(10,259)

Following legal advice obtained during the period ended 30th June 2010, the deferred tax liability which was recorded in 2008 for the reported capital gains related to Marpetrol vessels which are taxed under the tonnage tax regime, amounting to U.S.$3.5 million, was reversed and credited to the income statement.

11. **Revenue and Capital Commitments**

In addition to the group's existing capital commitments in respect of newbuilding contracts and contractual chartering commitments, the group chartered in three Aframax tankers during the period to 30th June 2010, for periods of twelve, seventeen and twenty months expiring in May 2011, December 2011 and January 2012 respectively with aggregate charter hire payable at 30th June 2010 of U.S.$25.686 million.

On 24th March 2010 the group signed an agreement for the acquisition of a second hand ice breaking supply vessel with a ten year charter attached, for a consideration of approximately U.S.$77 million. The vessel was delivered to the group on 22nd July 2010.

12. **Contingent Asset**

The balance of the claims filed in London remained unchanged during the period, in the region of between U.S.$810 million and U.S.$880 million. The court proceedings for the claims filed commenced at the High Court in London in October 2009 and have now been concluded. It is anticipated that the High Court will announce its judgement prior to the year end.

13. Related Party Transactions

Related party transactions comprised:

(i) Included in tonnage under construction (note 3) is one new-building (30th June and 31st December 2009 – two) with a total contracted cost of U.S.$125 million (30th June and 31st December 2009 – U.S.$251 million) placed on order from a State controlled shipyard in 2006. As at 30th June 2010 instalments of U.S.$63 million (30th June and 31st December 2009 – U.S.$175.6 million) were outstanding in respect of the shipbuilding agreement.

(ii) Bank balances include U.S.$15.2 million (30th June 2009 – U.S.$105.1 million / 31st December 2009 – U.S.$49.4 million) held with State controlled banks. Interest received on those accounts during the period amounted to U.S.$0.22 million (30th June 2009 – U.S.$1.17 million / 31st December 2009 – U.S.$3.26 million).

(iii) Two long-term time charter agreements entered into with a State controlled entity with aggregate hires receivable of U.S.$977 million (30th June and 31st December 2009 – U.S.$984 million). The charters are for 25 years, commencing in February and August 2010. The group has obtained guarantees from the State controlled shareholders of the charterers in respect of the performance of the obligations of the charterers under the time charter agreements.

(iv) Two time charter agreements entered into by the group's LNG joint ventures with a subsidiary of a State controlled entity with aggregate hires receivable as at the period end over the remaining firm period of the charters of U.S.$766 million (30th June 2009 – U.S.$799 million / 31st December 2009 – U.S.$789 million). The charters are for 20 years and have commenced in October 2007 and January 2008. Under the agreements, the charterers have the option to purchase the vessels in years five, ten, fifteen or twenty of the charters at amounts for each vessel ranging from U.S.$176.4 million in the fifth year to U.S.$35 million in the twentieth year.

(v) Two agreements signed with subsidiaries of a State controlled financial institution for the sale and lease back of two of the group's vessels, one of which is still under construction, for an aggregate consideration of U.S.$230 million referred to in note 14.

(vi) On 1st June 2007 OAO Sovcomflot signed a lease agreement with JSC Rosnefteflot to lease out part of the premises owned by Sovcomflot located at 7 Dunayevskogo Street, Moscow 121165, Russian Federation. The initial lease term was for eleven months commencing on 1st June 2007. The lease agreement was extended on 1st May 2008, 1st April 2009 and 1st March 2010 for eleven month periods at lease rentals for the periods of Roubles 17.19 million (equivalent to U.S.$0.507 million), Roubles 17.19 million (equivalent to U.S.$0.507 million) and Roubles 17.81 million (equivalent to U.S.$0.595 million), respectively.

(vii) Seven Escort tugs on bareboat charter to an associated undertaking for a period of 15 years (see also note 14).

(viii) The group also receives services from State controlled bodies at prices comparable with other similar organisations, the total amounts of which are not material.

14. Events After the Reporting Period

One Aframax tanker, the m/v "Olympiysky Prospect" was delivered to the group on 6th July 2010.

One Escort tug, the m/v "Dobrynya", was delivered to the group on 12th July 2010 and delivered on bareboat charter to an associated undertaking on the same date.

On 15th July 2010 the group signed newbuilding contracts for the construction of two Panamax bulk carriers at a total contracted cost of U.S.$79 million scheduled for delivery in March and May 2013. The group has the option, declarable by 13th September 2010, to build a further two bulk carriers at similar contract prices.

The ice breaking supply vessel referred to in note 11, the m/v "Fesco Sakhalin", was delivered to the group on 22nd July 2010.

In July 2010 the group entered into two new loan agreements totalling U.S.$116 million repayable over five and seven years. The exposure to interest rate fluctuations on both loans has been fully hedged through two interest rate swaps expiring in August 2015 and July 2017.

On 19th June 2010 the group signed agreements, with subsidiaries of a state controlled financial institution, for the sale and lease back, under bareboat charter, of two of its vessels, one of which is still under construction, for an aggregate consideration of U.S.$230 million at effective interest rates of 6.53% per annum. The agreements shall become effective after the satisfaction in full of all conditions precedent in the agreements but not later than 30th September 2010 and 20th January 2011 respectively.

The charter hires are payable monthly in arrears at monthly rates of U.S.$926,652 per vessel expiring in seven years from the date the agreements become effective. On expiration of the bareboat charter agreements, the group has the obligation to repurchase the vessels from the lessors for an aggregated cost of U.S.$165.6 million. The group has the right to re-purchase the vessels at any time during the bareboat charter period.

OAO SOVCOMFLOT
AND ITS SUBSIDIARY CORPORATIONS

CONSOLIDATED FINANCIAL STATEMENTS

31st December 2009

OAO Sovcomflot

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Independent Auditors' Report to the Shareholders of OAO Sovcomflot

We have audited the accompanying consolidated financial statements of OAO Sovcomflot and its subsidiaries, which comprise the statement of financial position as at 31st December 2009, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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.

Auditor's 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 financial statements give a true and fair view of the financial position of the group as at 31st December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens LLP

St. Paul's House,
London, EC4M 7BP

MOORE STEPHENS LLP

Chartered Accountants

31st March 2010

Consolidated Statement of Financial Position – 31st December 2009
(Expressed in U.S.$'000)

	Note	2009	2008	2007
Assets				
Non-current assets				
Fleet	7	4,766,487	4,210,107	3,640,147
Tonnage under construction	8	506,405	880,079	983,142
Other fixed assets	9	45,369	42,490	41,034
Investment property	10	6,529	7,281	8,437
Other fixed assets under construction	11	2,878	3,004	2,295
Investments	12	4,764	8,802	5,496
Intangible assets	14	25,654	28,663	39,598
Finance lease receivables	15	69,692	-	-
Derivative financial instruments	25	-	-	178
Retirement benefit plans	26	3,590	4,044	-
Deferred tax assets	27	2,236	1,602	2,041
		5,433,604	5,186,072	4,722,368
Current assets				
Inventories	17	48,127	33,268	44,356
Trade and other receivables	18	212,903	193,716	179,431
Finance lease receivables	15	786	-	-
Derivative financial instruments	25	-	-	387
Current tax receivable		1,864	5,059	9,693
Investments	12	3,215	7,503	3,016
Cash and cash equivalents	22	335,695	298,119	293,933
		602,590	537,665	530,816
Non-current assets held for sale	16	31,446	3,259	21,458
Total current assets		634,036	540,924	552,274
Total assets		6,067,640	5,726,996	5,274,642
Equity and liabilities				
Capital and reserves				
Share capital	19	405,012	405,012	405,012
Reserves		2,466,314	2,062,677	1,880,330
Equity attributable to the owners of the parent		2,871,326	2,467,689	2,285,342
Minority interest	29	203,568	349,274	437,148
Total equity		3,074,894	2,816,963	2,722,490
Non-current liabilities				
Secured bank loans	22	2,334,698	2,087,321	2,102,982
Finance lease liabilities	23	57,732	110,444	17,348
Provision for onerous contracts	24	2,808	33,300	-
Derivative financial instruments	25	57,959	137,688	37,569
Retirement benefit obligations	26	8,733	7,805	4,344
Current tax payable		1,987	2,045	-
Deferred tax liabilities	27	12,495	15,200	33,537
		2,476,412	2,393,803	2,195,780
Current liabilities				
Trade and other payables	28	175,987	171,103	181,873
Secured bank loans	22	196,878	207,065	151,871
Finance lease liabilities	23	54,099	12,251	1,300
Current tax payable		8,351	8,650	7,560
Provision for onerous contracts	24	10,110	7,387	-
Derivative financial instruments	25	70,909	72,829	13,768
Amount due to minority shareholders		-	36,945	-
		516,334	516,230	356,372
Total equity and liabilities		6,067,640	5,726,996	5,274,642

Approved by the Executive Board and authorised for issue on 31st March 2010

S.O. Frank
Chairman of the Executive Board

N.L. Kolesnikov
Member of the Executive Board

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

	Note	2009		2008	
Freight and hire receivable			1,222,415		1,634,078
Voyage expenses and commissions			(290,101)		(397,162)
Time charter equivalent revenues			932,314		1,236,916
Direct operating expenses					
Vessels' running costs		287,934		274,964	
Charter hire payments	37	14,112		21,014	
Vessels' drydock cost amortisation	7	42,512		41,104	
			(344,558)		(337,082)
Profit on vessels' trading			587,756		899,834
Other operating expenses					
Depreciation and amortisation					
Vessels' depreciation	7	187,907		178,188	
Vessels' impairment provision	7&16	24,428		48,040	
Other depreciation	9	5,112		7,608	
Investment property depreciation	10	966		949	
Intangible assets' amortisation	14(b)	8,087		8,087	
			226,500		242,872
Bad and doubtful debts	18		158		784
General and administrative expenses	30		80,130		103,253
Total other operating expenses			306,788		346,909
Profit from vessels' operations			280,968		552,925
Reversal / (provision) for impairment of tonnage under construction	8&24		13,964		(17,813)
Reversal / (provision) of onerous contract	24		22,069		(40,687)
(Loss) / gain on sale of assets			(2,395)		26,420
Gain on disposal of investments			406		190
Net other operating income	32		8,983		10,829
Share of (losses) / gains in associated undertakings	12		(3,375)		2,009
Operating profit			320,620		533,873
Other (expenses) / income					
Interest expense		(102,825)		(104,102)	
Bank and other interest receivable		14,718		16,800	
Other non-operating (expenses) / income		(1,563)		30,907	
Gain / (loss) on hedging instruments	25(a)	3,349		(5,418)	
Gain / (loss) on derivative financial instruments held for trading	25(b)	7,881		(36,857)	
Loss on available-for-sale investments		-		(1,061)	
Impairment of goodwill	14(a)	(3,074)		(5,932)	
Differences on foreign exchange		(6,263)		(16,657)	
Net other expenses			(87,777)		(122,320)
Profit before income taxes			232,843		411,553
Income taxes	27		(16,005)		(5,313)
Profit for the period			216,838		406,240
Attributable to:					
Owners of the parent			202,921		340,680
Minority interest			13,917		65,560
			216,838		406,240

OAO Sovcomflot

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

	Note	2009		2008	
Profit for the period			216,838		406,240
Other comprehensive income:					
Exchange difference on translating foreign operations		2,879		(7,405)	
Derivative financial instruments	25(a)	74,785		(117,470)	
Available for sale financial assets		1,139		(569)	
Other comprehensive income / (expense) for the period, net of tax			78,803		(125,444)
Total comprehensive income for the period			295,641		280,796
Total comprehensive income attributable to:					
Owners of the parent			281,280		217,145
Minority interest	29		14,361		63,651
			295,641		280,796

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

	Share Capital (note 19)	Share Premium (note 19)	Group Reconstruction Reserve (note 20)	Hedging Reserve	Fair value Reserve
Balance 1st January 2008	405,012	818,845	(834,490)	(40,677)	472
Total comprehensive income	-	-	-	(116,802)	(412)
Dividends (note 21)	-	-	-	-	-
Effect of acquisition of minority interest in JSC Novoship	-	-	-	(83)	44
Balance 31st December 2008 before effect of buy-back of shares	405,012	818,845	(834,490)	(157,562)	104
Effect of buy-back of shares by JSC Novoship	-	-	-	-	-
Balance 31st December 2008	405,012	818,845	(834,490)	(157,562)	104
Total comprehensive income	-	-	-	74,672	942
Dividends (note 21)	-	-	-	-	-
Effect of buy back of shares by JSC Novoship	-	-	-	(250)	63
Balance 31st December 2009	405,012	818,845	(834,490)	(83,140)	1,109

…. / continued

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

	Currency Reserve	Retained Earnings	Attributable to owners of the parent	Minority Interest (note 29)	Total
Balance 1st January 2008	3,565	1,932,615	2,285,342	437,148	2,722,490
Total comprehensive income	(6,321)	340,680	217,145	63,651	280,796
Dividends (note 21)	-	(40,916)	(40,916)	(6,541)	(47,457)
Effect of acquisition of minority interest in JSC Novoship	172	5,985	6,118	(108,039)	(101,921)
Balance 31st December 2008 before effect of buy-back of shares	(2,584)	2,238,364	2,467,689	386,219	2,853,908
Effect of buy-back of shares by JSC Novoship	-	-	-	(36,945)	(36,945)
Balance 31st December 2008	(2,584)	2,238,364	2,467,689	349,274	2,816,963
Total comprehensive income	2,745	202,921	281,280	14,361	295,641
Dividends (note 21)	-	(31,988)	(31,988)	(2,885)	(34,873)
Effect of buy back of shares by JSC Novoship	(261)	154,793	154,345	(157,182)	(2,837)
Balance 31st December 2009	(100)	2,564,090	2,871,326	203,568	3,074,894

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

	Note	2009		2008	
Operating Activities					
Cash received from freights and hire of vessels		1,246,178		1,629,702	
Other cash receipts		42,632		39,808	
Cash payments for voyage and running costs		(613,316)		(702,009)	
Other cash payments		(145,034)		(118,672)	
Cash generated from operations	31		530,460		848,829
Interest received			7,138		24,761
Taxation paid			(23,607)		(20,073)
Net cash inflow from operating activities			513,991		853,517
Investing Activities					
Acquisition of investments	12	177		(1,685)	
Acquisition of shares in subsidiary	1	-		(101,921)	
Acquisition of subsidiary net of cash acquired	34(a)	(31,961)		-	
Acquisition of joint ventures net of cash acquired	34(b)	(7,256)		-	
Proceeds from sale of investments		901		450	
Expenditure on fleet		(9,652)		(4,393)	
Acquisition of vessel		(20,011)		-	
Expenditure on drydocking		(34,130)		(34,873)	
Expenditure on tonnage under construction		(360,366)		(629,024)	
Purchase of other fixed assets		(14,107)		(21,110)	
Proceeds on sale of vessels		11,122		49,644	
Proceeds on sale of other fixed assets		180		6,634	
Capital element received on finance leases		1,493		-	
Interest received on finance leases		3,005		-	
Buy back of shares		(34,287)		-	
Decrease / (increase) in term deposits		5,568		(6,446)	
Other receipts	39	-		40,017	
Net cash outflow from investing activities			(489,324)		(702,707)
Financing Activities					
Loans drawn down		368,063		502,490	
Repayment of loans		(204,198)		(462,139)	
Financing costs		(3,151)		(2,186)	
Proceeds from the termination of hedging instruments		-		559	
Capital element of finance leases		(10,862)		(13,652)	
Interest paid on loans		(92,936)		(96,576)	
Interest paid on finance leases		(7,090)		(7,728)	
Dividends paid		(35,314)		(49,633)	
Net cash inflow / (outflow) from financing activities			14,512		(128,865)
Increase in cash and cash equivalents			39,179		21,945
Cash and cash equivalents at beginning of period			298,119		293,933
Effect of exchange rate changes on cash and cash equivalents			(1,603)		(17,759)
Cash and cash equivalents at end of period			335,695		298,119

Non - cash transactions
During the year ended 31st December 2008 the group acquired two vessels by means of finance leases, see also notes 7 and 23.

Notes to the Consolidated Financial Statements – 31st December 2009

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

On 5th December 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in JSC Novoship ("Novoship"), a company incorporated in the Russian Federation, to OAO Sovcomflot ("Sovcomflot") in exchange for 602,158,693 shares of the company, at a price of 34.28 Roubles (U.S.$1.40071) per share, thus uniting its interest in the two companies.

Business combinations involving entities under common control are excluded from the scope of IFRS 3 "Business Combinations" provided that they are controlled by the same party both before and after the business combination.

As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of Novoship has been accounted for on a pooling of interests basis. The financial position, financial performance and cash flows of the combined group have been brought together as if the companies had always been a single entity.

On 10th January 2008 Sovcomflot launched a mandatory public offer to acquire the 9.66% (36,301,145 shares) of the ordinary shares in Novoship, owned by minority shareholders at the time, at a price of Roubles 81.82 per share. By the expiration of the mandatory offer, on 8th April 2008, a total of 24,389,606 shares, representing 6.49% of ordinary shares in Novoship had been transferred by minority shareholders to Sovcomflot. As a result, and as the shareholding of Sovcomflot and its affiliates exceeded the 95% threshold in the ordinary share capital of Novoship, in accordance with Russian Legislation, Novoship informed its minority shareholders of their right to sell and the obligation of Sovcomflot to buy their ordinary shares. During the secondary offer period, between 16th June and 5th December 2008, an additional 5,236,159 shares were transferred by minority shareholders to Sovcomflot. The obligations of the company under the public offers had been guaranteed by a State controlled bank.

In March 2009 the group completed a buy-back of the Novoship preference shares launched in December 2008. A total of 48,719,980 shares were transferred back to the company. These shares were cancelled in August 2009.

In July 2009 the group launched a second buy-back of Novoship preference shares. A total of 39,740,098 shares were transferred back to the company including 34,377,981 shares held by subsidiaries of Novoship. These shares were cancelled in December 2009.

The share capital of Novoship comprises voting ordinary shares and non-voting preference shares. Ownership of the shares is analysed as follows:

	31st December 2009			31st December 2008		
	Ordinary shares %	Preference shares %	Total shares %	Ordinary shares %	Preference shares %	Total shares %
Share capital composition	91.08	8.92	100.00	75.00	25.00	100.00
OAO Sovcomflot	75.01	-	68.32	75.01	-	56.26
Treasury shares held by subsidiaries of JSC Novoship	23.21	-	21.14	23.21	27.44	24.27
Minority shareholders	1.78	100.00	10.54	1.78	72.56	19.47
	100.00	100.00	100.00	100.00	100.00	100.00

Ordinary and preference shareholders of Novoship participate equally in the distribution of the net assets of the company on liquidation. Consequently Sovcomflot holds an effective interest in Novoship of 86.63% (2008 – 74.29%).

2. **Significant Accounting Policies**

(a) Basis of accounting

The financial statements have been prepared in U.S. Dollars, 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 OAO Sovcomflot and its subsidiaries and joint ventures, for the period from 1st January 2009 (or subsequent dates of incorporation) 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 ventures to bring their accounting policies into line with those used by other members of the group.

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

(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) Investments in associates

The results and assets and liabilities of associates are included in these financial statements for the period from 1st January 2009 (or subsequent dates of incorporation) to 31st December 2009, 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.

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.

(e) 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.

(f) 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(d) above.

Other intangible assets represent time charter agreements acquired. Amounts are reported at fair value less accumulated amortisation and accumulated impairment losses. The fair value is calculated using the effective interest rate implicit to each time charter agreement, which is the rate at which the net future cash flows associated with the time charter agreements break even. Amortisation is charged on a straight-line basis over the period of the charter.

(g) 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.

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

(h) 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.

(i) 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.

(j) 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:

	2009 Exchange rate U.S.$1	2008 Exchange rate U.S.$1
Russian Roubles	30.2442	30.5350
Sterling Pounds	0.6193	0.6955
Euros	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.

(k) Borrowing costs

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

(l) Leasing

Finance and operating lease payables

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.

Finance lease receivables

At the commencement of the lease term, amounts due from lessees are recognised as receivables in the statement of financial position the amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest implicit in the lease. Any initial direct costs are added to the amount recognised as an asset. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding.

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

(m) 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.

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.

(n) 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.

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 and chemical tankers	25 years
LNG carriers	35 years
LPG carriers	30 years
Second hand LNG carriers (note 14(b))	43 years
Multi-purpose dry cargo vessels	25 years
Ice breaking supply vessels	25 years

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

	2009 U.S.$ per LWT	2008 U.S.$ per LWT
Oil, product and chemical tankers	400	280
LNG and LPG carriers	400	280
Multi-purpose dry cargo vessels	340	250
Ice breaking supply vessels	400	N/A

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.

Leasehold improvements are included within other fixed assets and are depreciated over the non-cancellable period of the operating lease to which they relate.

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.

(o) 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(n) above.

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

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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 initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method, 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 statement of cash flows.

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

Available-for-sale 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.

(u) 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. Income taxes in respect of the parent company are accounted for in accordance with Russian fiscal regulations. 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.

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

(v) 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 management's 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.

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.

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

- Amendments to IFRIC 14 (IAS 19—"The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction") - "Prepayments of a Minimum Funding Requirement" (effective for annual periods beginning on or after 1 January 2011).
- IFRIC 17: "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 19: "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).
- IAS 24 (revised): "Related Party Disclosures" (effective for annual periods beginning on or after 1 January 2011).
- Amendments to IAS 32 ("Financial Instruments: Presentation") - "Classification of Rights Issues" (effective for annual periods beginning on or after 1 February 2010.
- Amendments to IAS 39 ("Financial Instruments: Recognition and Measurement") - "Eligible Hedge Items" (effective for annual periods beginning on or after 1 July 2009).
- Revisions to IFRS 3 ("Business Combinations") and Consequential Amendments to IAS27 ("Consolidated and Separate Financial Statements"), to IAS31 ("Interests in Joint Ventures") and to IAS 28 ("Investments in Associates") (effective for annual periods beginning on or after 1 July 2009).
- Amendments to IFRS 2 ("Share Based Payments") - "Group Cash-settled Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2010).
- Amendments to IFRS 1("First-time Adoption of International Financial Reporting Standards") - "Additional Exemptions for First time Adopters" (effective for annual periods beginning on or after 1 January 2010).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013).

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.

Other than disclosed below, management anticipates 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;

IFRS 3 has been extensively revised. If the group undertakes business combinations in the future, this will have a significant impact on the accounting treatments adopted. Due to the transitional provisions, there will be no effect on previous combinations.

3. **Adoption of New and Revised International Financial Reporting Standards (Continued)**

The main changes likely to affect the group will be to:

- require transactions costs to be taken to profit or loss when incurred;
- crystallise contingent consideration at the acquisition date, with any future changes reflected in profit or loss; and
- require redetermination of values where the group acquires a controlling interest in any entity in which an interest was already held.

There are associated changes to IAS 27 ("Consolidated and Separate Financial Statements") which are likely to impact on the group as follows:

- all changes in the parent's interest in an entity that is a subsidiary before and after the change will be accounted for as equity transactions;
- all relevant losses will be attributed to non-controlling interests (previously minority interests), even if it results in the non-controlling interests having a deficit balance.

IFRS 9 will change the categories of financial assets to those that are carried at amortised cost and those that are carried at fair value. This will mainly affect the classification of the group's available for sale financial assets and held to maturity investments.

These financial statements have been prepared in accordance with the revised IAS 1 which is effective for accounting periods beginning on or after 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).

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

The following are the critical accounting judgements concerning the future and the key sources of estimation uncertainty at the end of the reporting period that have a significant impact on the carrying value of assets and liabilities:

1. The assessment of the carrying amounts of fleet and tonnage under construction to determine whether there is an indication that those assets have suffered an impairment loss (notes 7 and 8).
2. The estimate of the anticipated useful economic life of the fleet and the estimates of residual values used for the purpose of establishing the group's depreciation policy (note 7).
3. The assessment of the retirement benefit obligations of the group based on a number of factors that are determined on an actuarial basis using a number of assumptions (note 26).
4. The outcome of the legal claim filed in London, referred to in note 39, and the recoverability of legal cost and counter securities placed for defendants costs (notes 18 and 22).

5. **Organisation and Trading Activities**

OAO Sovcomflot was registered in Russia on 18th December 1995, as the successor undertaking to AKP Sovcomflot, in which the Russian Federation holds 100% of the issued shares.

The company, through its subsidiaries and joint ventures, is engaged in ship owning and operating on a world-wide basis with a fleet of 137 vessels at the period end, comprising 120 tankers, 1 chartered in tanker, 8 gas carriers, 6 multi-purpose dry cargo vessels, 1 bulk carrier and 1 ice breaking supply vessel.

The company's registered office address is 3A, Moika River Embankment, Saint Petersburg 191186, Russian Federation and its head office is located at 6 Gasheka Street, Moscow 125047, Russian Federation. The group's fleet is managed by JSC Novoship, Unicom Management Services (Cyprus) Limited, Unicom Management Services (St. Petersburg) Ltd and W.W. Marpetrol S.A.

Sovcomflot currently has a Baa2 global scale issuer rating with a "negative" outlook with Moody's and an Aaa.ru long-term national scale rating with a "negative" outlook with Moody's Interfax.

6. **Directors and Management**

The corporate structure of OAO Sovcomflot comprises a Board of Directors which is responsible for policy decisions and overall supervision of the group and an Executive Board which is responsible for day to day management.

The Board of Directors are:

S.E. Naryshkin (Chairman)	Chief of Staff of the Presidential Executive Office of the Russian Federation
A.L. Kostin	President and Chairman of the Executive Board of VTB Bank
A.S. Misharin	Governor of the Sverdlovsk Region in Russia
Ch.E. Ryan	Chairman of the Supervisory Board of Deutsche Bank in Russia
E.B. Titova	President and Chairman of the Executive Board of OOO Morgan Stanley Bank
N.P. Tokarev	President of JSC Transneft
S.O. Frank	President and CEO of OAO Sovcomflot

The Executive Board members are:

S.O. Frank (Chairman)	President and CEO of OAO Sovcomflot
E.N. Ambrosov	Senior Executive Vice-President of OAO Sovcomflot, Chief Operating Officer
N.L. Kolesnikov	Executive Vice-President of OAO Sovcomflot, Chief Strategy & Financial Officer
A.L. Kurtynin	Vice-President of OAO Sovcomflot
C.B. Ludgate	Managing Director of Sovcomflot (UK) Ltd
V.A. Mednikov	Executive Vice-President of OAO Sovcomflot
S.G. Popravko	Managing Director of Unicom Management Services (Cyprus) Ltd
Lord N.A. Fairfax	Deputy Managing Director of Sovcomflot (UK) Ltd
A.V. Khlyunev	Chief Accountant of OAO Sovcomflot

7. **Fleet**

	Vessels U.S.$'000	Drydock U.S.$'000	Total Fleet U.S.$'000
Cost			
At 1st January 2008	4,411,267	134,576	4,545,843
Settlement of claims (note 39)	(28,252)	-	(28,252)
Expenditure in period	3,046	34,097	37,143
Transferred from tonnage under construction (note 8)	694,538	15,898	710,436
Acquired on a finance lease (note 23)	117,700	-	117,700
Transferred to non-current assets held for sale (note 16)	(20,116)	(2,210)	(22,326)
Eliminations	-	(27,532)	(27,532)
At 31st December 2008	5,178,183	154,829	5,333,012
Expenditure in period	9,652	34,590	44,242
Transferred from tonnage under construction (note 8)	661,942	11,500	673,442
Acquired on acquisition of subsidiary (note 34(a))	79,311	252	79,563
Acquisition in the period	18,843	1,168	20,011
Acquired on acquisition of joint ventures (note 34(b))	37,000	900	37,900
Transferred to non-current assets held for sale (note 16)	(161,654)	(5,423)	(167,077)
Disposals	(25,177)	(2,345)	(27,522)
Eliminations	-	(40,053)	(40,053)
At 31st December 2009	5,798,100	155,418	5,953,518
Depreciation			
At 1st January 2008	844,898	60,798	905,696
Settlement of claims (note 39)	(2,754)	-	(2,754)
Charge for the period	178,188	41,104	219,292
Impairment provision	42,183	-	42,183
Transferred to non-current assets held for sale (note 16)	(12,646)	(1,334)	(13,980)
Eliminations	-	(27,532)	(27,532)
At 31st December 2008	1,049,869	73,036	1,122,905
Charge for the period	187,907	42,512	230,419
Impairment provision	24,428	-	24,428
Acquired on acquisition of joint ventures (note 34(b))	1,976	640	2,616
Transferred to non-current assets held for sale (note 16)	(131,730)	(3,901)	(135,631)
Disposals	(15,560)	(2,093)	(17,653)
Eliminations	-	(40,053)	(40,053)
At 31st December 2009	1,116,890	70,141	1,187,031
Net book value			
At 31st December 2009	4,681,210	85,277	4,766,487
At 31st December 2008	4,128,314	81,793	4,210,107

	2009 U.S.$'000	2008 U.S.$'000
Market value[1]	4,636,500	6,102,372
Current insured values[1]	6,889,907	7,464,000
Total deadweight tonnage (dwt)[1]	9,558,619	8,905,970

[1] Including group's share in the Joint Ventures (note 13).

7. **Fleet (Continued)**

Summary of fleet at 31st December:

Type of vessel	Number of vessels		Dwt'000		Carrying value U.S.$ million	
	2009	2008	2009	2008	2009	2008
Oil tankers and product carriers	118	113	9,150	8,538	4,190	3,750
LNG and LPG carriers[2]	8	8	282	268	459	434
Multi-purpose drycargo vessels	3	5	29	48	14	21
Bulk Carriers	2	2	95	52	23	5
Ice breaking supply vessels	1	-	3	-	80	-
	132	128	9,559	8,906	4,766	4,210
Vessels held for sale (note 16)	4	1	329	6	31	3
	136	129	9,888	8,912	4,797	4,213

[2] Includes four LNG carriers owned by joint ventures (note 13). The DWT and carrying value include the group's share in the fleet of the joint ventures.

As at 31st December 2008 management carried out an impairment review of the carrying amounts of fleet, on a vessel by vessel basis, and concluded that the recoverable amount of the vessels was their market value, as assessed by management at the period end and supported by independent professional valuations. The review led to a recognition of an impairment provision of U.S.$42.183 million recorded in the income statement for the year ended 31st December 2008.

Management believes that such an approach is no longer appropriate in concluding the recoverable amount of fleet, as management are of the opinion that in the current market environment and a decrease in charter rates, independent broker valuations reflect a short term view of the shipping markets rather than the long term earnings potential of the fleet, which is consistent with the group's strategy.

Consequently, as at 31st December 2009 management carried out an impairment review of the carrying amounts of the fleet, on a vessel by vessel basis, and concluded that the recoverable amount of the vessels is the higher of their market value as assessed by management at the period end and supported by independent professional valuations, and their value in use. The review led to a recognition of an impairment provision of U.S.$24.428 million recorded in the income statement for the year ended 31st December 2009.

Value in use calculations involve estimating the discounted future cash flows, which require judgements about long-term forecasts of future revenues and costs related to the vessels to be made by management as well as judgements about the discount rate used in the calculations. These forecasts are uncertain as they require assumptions about demand for products and services, future market conditions and future technological developments and therefore value in use calculations are mainly sensitive to the freight rates and discount rates applied in the calculations. Significant and unanticipated changes in these assumptions could result in a material impairment provision in a future period.

The following sensitivity analysis has been performed by management, all other things being equal:

- A decrease in freight rates of 10% over the remaining useful economic life of the vessels would result in an additional impairment provision to fleet of U.S.$41.384 million as at 31st December 2009; and
- An increase in the discount rate of 1% would result in an additional impairment provision to fleet of U.S.$11.011 million as at 31st December 2009.

The main assumptions used in performing the value in use calculations as at 31st December 2009 are as follows:

- Freight rate estimates in the period 2010 to 2012 based on Baltic Exchange Forward Freight Assessments, for the relevant route that applies to each vessel;
- Freight rate estimates after 2012 based on a historic average of the World Scale of between six to eleven years for the relevant route that apply to each vessel, as adjusted for any premium earned by each vessel on the relevant route compared to the historic average without any inflation increase;
- Contracted hire rates, for vessels on time charter or on bareboat charter, until the expiry of the current agreements;
- Operating expenses based on the group's approved operating budget for 2010 and increasing at a rate of 3% per annum thereafter;
- Discount rates between 7.0% to 8.23%, depending on the remaining useful economic life of each vessel; and
- Annual utilisation for each vessel of 362 days less any scheduled drydocking, estimated at 28 days.

A sensitivity analysis for tonnage under construction is presented separately in note 24 of these financial statements.

As at 31st December 2009 management have reassessed the residual value of the fleet in accordance with the group's accounting policy (see note 2 (n)). The effect of this change in estimate on the results for the period has been to decrease the depreciation charge by U.S.$11.6 million.

Included in the group's fleet are vessels held under finance leases with an aggregate carrying value of U.S.$110.2 million (2008 – U.S.$115.8 million). Depreciation charge in the period in respect of these vessels amounted to U.S.$5 million (2008 – U.S.$4.9 million).

8. **Tonnage Under Construction**

	2009 U.S.$'000	2008 U.S.$'000
Cost		
At 1st January	897,892	983,142
Expenditure in period	360,366	625,186
Transferred to vessels (note 7)	(661,942)	(694,538)
Transferred to drydock costs (note 7)	(11,500)	(15,898)
Transferred to finance lease receivables (note 15)	(68,862)	-
At 31st December	515,954	897,892
Impairment provision		
At 1st January	17,813	-
Allocated to payments made during the period from provision for onerous contracts (note 24)	5,700	-
(Released) / provided during the period (note 24)	(13,964)	17,813
At 31st December	9,549	17,813
Carrying amount		
At 31st December	506,405	880,079
Total deadweight tonnage (dwt)	1,391,860	2,705,760

Tonnage under construction at 1st January 2009 comprised ten Suezmax tankers, eight Aframax tankers, three Arctic Shuttle tankers, six Escort tugs and four Asphalt carriers scheduled for delivery between February 2009 and December 2010 at a total contracted cost to the group of U.S.$1,870 million.

In January 2009, the group entered into agreements to purchase an additional three Escort tugs at a total contracted cost of U.S.$26.29 million (€19.8 million) scheduled for delivery between 11th March 2009 and 30th July 2009.

Upon delivery by the shipyard, the Escort tugs have commenced bareboat charters to an associated undertaking for a period of fifteen years at a rate calculated based on the total construction cost of the vessels and have consequently been classified as finance lease receivables at 31st December 2009. On payment of the final hire payment and provided that the charterers fulfil all their obligations under the bareboat charter agreements for all tugs, legal ownership of the tugs will pass to the charterers (note 15).

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:

Vessel Name	Vessel Type	Delivery Date
Timofey Guzhenko	Arctic Shuttle tanker	24th February 2009
Kapitan Avdyukov*	Escort tug	11th March 2009
NS Arctic	Aframax tanker	4th May 2009
Sadko*	Escort tug	19th May 2009
NS Antarctic	Aframax tanker	8th June 2009
Kapitan Popov*	Escort tug	11th June 2009
NS Asia	Aframax tanker	21st July 2009
Stavr*	Escort tug	23rd July 2009
Kapitan Reutov*	Escort tug	29th July 2009
SCF Primorye	Suezmax tanker	7th September 2009
NS Africa	Aframax tanker	21st September 2009
NS Burgas	Suezmax tanker	28th October 2009
Radomir*	Escort tug	2nd November 2009
Ratibor *	Escort tug	20th November 2009
SCF Surgut	Suezmax tanker	3rd December 2009

* Delivered to the bareboat charterer on the same date and classified as finance lease receivables (note 15).

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

Tonnage under construction at 31st December 2009 comprised five Suezmax tankers, four Aframax tankers, two Arctic Shuttle tankers, two Escort tugs and two Asphalt carriers scheduled for delivery between February 2010 and February 2011 at a total contracted cost to the group of U.S.$978 million. As at 31st December 2009 U.S.$497 million of the contracted costs had been paid.

8. **Tonnage Under Construction (continued)**

Facilities of U.S.$100 million have been arranged with the group's bankers to finance the construction of the two Suezmax tankers. As at 31st December 2009, an amount of U.S.$36.6 million has been drawn down under the above facilities (see also note 22).

Included in expenditure in the period is an amount of U.S.$3.2 million (2008 – U.S.$25.8 million) representing interest capitalised during the period in accordance with the group's accounting policy concerning borrowing costs (note 2(p)).

9. **Other Fixed Assets**

	Land and Buildings U.S.$'000	Miscellaneous U.S.$'000	Total U.S.$'000
Cost			
At 1st January 2008	44,757	53,012	97,769
Expenditure in period	443	2,252	2,695
Transferred from investment property (note 10)	1,216	-	1,216
Transferred to investment property (note 10)	(1,459)	(150)	(1,609)
Transferred from other fixed assets under construction (note 11)	4,209	3,068	7,277
Disposals	(2,381)	(4,348)	(6,729)
Exchange adjustment	172	(6,355)	(6,183)
At 31st December 2008	46,957	47,479	94,436
Expenditure in period	2	4,569	4,571
Acquired on acquisition of subsidiary (note 34a)	-	960	960
Transferred from investment property (note 10)	951	-	951
Transferred to investment property (note 10)	(1,185)	(29)	(1,214)
Transferred from other fixed assets under construction (note 11)	584	2,287	2,871
Disposals	(53)	(3,559)	(3,612)
Exchange adjustment	(62)	40	(22)
At 31st December 2009	47,194	51,747	98,941
Depreciation			
At 1st January 2008	22,888	33,847	56,735
Charge for the period	2,561	5,047	7,608
Transferred from investment property (note 10)	875	-	875
Transferred to investment property (note 10)	(1,445)	(50)	(1,495)
Disposals	(2,377)	(4,144)	(6,521)
Exchange adjustment	190	(5,446)	(5,256)
At 31st December 2008	22,692	29,254	51,946
Charge for the period	1,270	3,842	5,112
Transferred from investment property (note 10)	838	-	838
Transferred to investment property (note 10)	(876)	(11)	(887)
Disposals	(13)	(3,411)	(3,424)
Exchange adjustment	(7)	(6)	(13)
At 31st December 2009	23,904	29,668	53,572
Net book value			
At 31st December 2009	23,290	22,079	45,369
At 31st December 2008	24,265	18,225	42,490

Buildings comprise offices in Moscow, St. Petersburg, Novorossyisk and Limassol.

Included in miscellaneous other fixed assets is an amount of U.S.$4.00 million (2008 – U.S.$1.40 million) relating to construction work and furnishing made to leasehold premises in St. Petersburg, which is expected to be completed by the beginning of 2011 (see also note 38).

10. **Investment Property**

	2009 U.S.$'000	2008 U.S.$'000
Cost		
At 1st January	22,454	22,041
Transferred from other fixed assets (note 9)	1,214	1,609
Transferred to other fixed assets (note 9)	(951)	(1,216)
Expenditure in period	-	20
At 31st December	22,717	22,454
Depreciation		
At 1st January	15,173	13,604
Transferred from other fixed assets (note 9)	887	1,495
Transferred to other fixed assets (note 9)	(838)	(875)
Charge for the period	966	949
At 31st December	16,188	15,173
Net book value		
At 31st December	6,529	7,281
Rental income	2,964	3,662
Direct operating expenses	2,039	2,404

Investment property comprises buildings in Moscow and Novorossyisk with a market value as at 31st December 2009 of U.S.$38.02 million (2008 – U.S.$44.00 million). The land on which the Moscow building is built is leased for a period of 49 years from August 1994.

11. **Other Fixed Assets Under Construction**

	2009 U.S.$'000	2008 U.S.$'000
At 1st January	3,004	2,295
Expenditure in period	3,083	7,986
Transferred to other fixed assets (note 9)	(2,871)	(7,277)
Disposals	(338)	-
At 31st December	2,878	3,004

12. **Investments**

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Investments in associates	3,119	6,485	3,688
Other investments	1,645	2,317	1,808
Non-current asset investments	4,764	8,802	5,496
Current asset investments	3,215	7,503	3,016
	7,979	16,305	8,512

Current asset investments comprised:

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Short-term equity investments available for sale at fair value	2,337	1,057	2,645
Short-term bank deposits held to maturity	878	6,446	-
Russian State bonds	-	-	371
	3,215	7,503	3,016

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.

12. **Investments (Continued)**

Investments in associates are analysed as follows:

	2009 U.S.$'000	2008 U.S.$'000
At 1st January	6,485	3,688
Share of (losses) / gains in associates	(3,375)	2,009
Dividends receivable	-	(136)
Investments / acquisitions during the period	-	1,056
Currency retranslation difference	9	(132)
At 31st December	3,119	6,485

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 associates:

Name	Holding	Country of Incorporation	Principal Activity
JSC Rosnefteflot	49%	Russia	Ship Management and port fleet operator
JSC Port Prigorodnoye	50%	Russia	Port operations and port coordination activities
SCF DFDS Lines LLC	50%	Russia	Liner service
Chart Pilot LLC	20%	Russia	Production and distribution of navigation equipment

Summarised financial information in respect of the group's associates is set out below:

	2009 U.S.$'000	2008 U.S.$'000
Total assets	95,250	30,646
Total liabilities	(90,340)	(21,864)
Net assets	4,910	8,782
Group's share of associates' net assets	1,616	3,372
Revenues	46,157	26,783
(Loss) / gain for the period	(6,857)	3,936
Group's share of associates' (losses) / gains for the period	(3,375)	2,009

13. **Joint Ventures**

As of 31st December 2009 the group has interests in the following active joint ventures:

Name of Joint Venture	% Holding
LNG East-West Shipping Company (Singapore) Pte Limited	37.5%
LNG North-South Shipping Company (Singapore) Pte Limited	50.0%
NYK-SCF LNG Shipping No.1 Limited	50.0%
NYK-SCF LNG Shipping No.2 Limited	50.0%

On 30th November 2009, Fiona Trust and Holding Corporation ("Fiona") acquired from Nippon Yusen Kabushiki Kaisha ("NYK") an additional 10% shareholding in NYK-SCF LNG Shipping No.1 Limited and in NYK-SCF LNG Shipping No.2 Limited", details of the transaction are reported in notes 34(b).

13. **Joint Ventures (continued)**

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	2007 U.S.$'000
Statement of financial position			
Non-current assets	328,173	299,719	221,422
Current assets	27,535	16,816	6,169
Non-current liabilities	281,903	286,608	179,911
Current liabilities	26,910	21,187	8,689
Income Statement			
Revenues	36,630	18,364	1,544
Expenses	33,248	17,485	1,604

14. **Intangible Assets**

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
(a) Goodwill	-	3,074	9,006
(b) Fair value of time charter agreements acquired	20,082	25,589	30,592
(c) Fair value of time charter agreements acquired on acquisition of joint venture	5,572	-	-
	25,654	28,663	39,598

(a) Goodwill

	2009 U.S.$'000	2008 U.S.$'000
Cost		
At 1st January and 31st December	9,006	9,006
Impairment		
At 1st January	5,932	-
Impairment loss recognised in period	3,074	5,932
At 31st December	9,006	5,932
Carrying amount		
At 31st December	-	3,074

Goodwill has arisen on the acquisition of Marpetrol by Vestoro Holdings Limited on 2nd August 2006 and represents the excess of the cost of acquisition paid by the group over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of Marpetrol recognised at the date of acquisition. Goodwill has been allocated to each vessel owned by the company (cash-generating unit) based on their fair market values on the date of its acquisition.

Management has assessed goodwill for impairment at the end of the reporting period together with the carrying amount of these vessels compared the higher of their market values and their value in use, as explained in note 7, and concluded that goodwill allocated to certain vessels had been impaired. Consequently an impairment loss has been recognised as at the period end. Due to the insignificance of goodwill at 31st December 2009 and 31st December 2008 detailed value in use calculations have not been disclosed in the financial statements.

14. **Intangible Assets (Continued)**

(b) Time Charters Acquired

During 2006 the group acquired two 70,000 CBM LNG Carriers, the "SCF Polar" and the "SCF Arctic" together with the time charters attached to each vessel.

The movements in the carrying values of the time charter agreements are presented as follows:

	2009 U.S.$'000	2008 U.S.$'000
At 1st January	25,589	30,592
Effective interest for the period	2,580	3,084
Amortisation for the period	(8,087)	(8,087)
At 31st December	20,082	25,589

The time charter agreements expire on 31st December 2012 with aggregate charter hires receivable as at 31st December 2009 of U.S.$91.13 million (2008 – U.S.$117.11 million).

(c) Time charters acquired on acquisition of additional shareholdings in Joint Ventures

On 30th November 2009, the group acquired an additional 10% shareholding in NYK-SCF LNG Shipping No.1 Limited and in NYK-SCF LNG Shipping No.2 Limited, referred to in notes 13 and 34(b), together with the time charters attached to each vessel.

The fair value of the time charter agreements acquired amounted to U.S.$5.57 million, which will be amortised over the remaining term of the time charters acquired, being 20 years from the commencement of the charters. No amortisation was charged in the income statement for the year ended 31st December 2009 as the amounts involved are immaterial.

15. **Finance Lease Receivables**

	2009 U.S.$'000	2008 U.S.$'000
Transferred from tonnage under construction (note 8)	68,862	-
Finance lease interest receivable	4,948	-
Finance lease payments receivable	(3,332)	-
At 31st December	70,478	-
Less current finance lease receivables	(786)	-
Non-current finance lease receivables	69,692	-

The minimum lease payments and their corresponding present value is analysed as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2009 U.S.$'000	2008 U.S.$'000	2009 U.S.$'000	2008 U.S.$'000
Within one year	11,693	-	786	-
Between one to five years inclusive	52,789	-	9,389	-
After more than five years	114,841	-	60,303	-
	179,323	-	70,478	-
Less unearned income	(108,845)	-	-	-
Present value of minimum lease payments	70,478	-	70,478	-

Finance lease receivables comprise seven Escort tugs chartered out on fifteen year bareboat charters to an associated undertaking, commencing on the delivery dates of the tugs as disclosed in note 8, at effective interest rates ranging from 13.24% to 18.79% per annum.

The charter hires are payable monthly in arrears at daily rates ranging from U.S.$1,835 to U.S.$5,071 from inception through to the expiration of the charters. The charterer has the option to acquire the tugs on any hire payment date through to the expiration of the charter, provided that the charterer has fulfilled all obligations under the bareboat charter agreements, at predetermined prices. Upon expiration of the charters in fifteen years from the commencing date, legal ownership of the tugs will be transferred to the charterer at a nominal amount.

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

	2009 U.S.$'000	2008 U.S.$'000
At 1st January	3,259	21,458
Adjustment to brought forward balance	-	25
Transferred from fleet (note 7)	29,924	7,470
Transferred from drydock cost (note 7)	1,522	876
Impairment provision	-	(5,857)
Disposals	(3,259)	(20,713)
At 31st December	31,446	3,259
Current insured value	86,000	15,000
Total deadweight tonnage (dwt)	329,220	5,800

In 2008 the group agreed to sell the group's passenger vessel the m/v "Maxim Gorkiy" to a third party for a purchase consideration which exceeded the carrying value of the vessel, however the transaction was terminated prior to 31st December 2008. The vessel was subsequently sold to a new buyer on 9th January 2009 and was delivered to her new owners on 26th January 2009. Accordingly, the carrying value of the vessel was written down to its net selling price and an impairment provision of U.S.$5.857 million was recognised in the income statement in 2008.

Prior to the year end the group decided to sell four vessels, two Suezmax tankers, the m/v "Romea Champion" and the m/v "Tropic Brilliance", and two multi-purpose cargo vessels, the m/v "Kochnev" and m/v "Socol 2". The vessels were actively marketed for sale at a price approximate to their market values. Agreements were signed with third parties for the sale of these vessels in December 2009 and January 2010. Consequently these vessels have been classified as non-current assets held for sale and are presented separately in the Statement of Financial Position.

The m/v "Kochnev", m/v "Romea Champion", and m/v "Socol 2" were delivered to their new owners on 25th February 2010, 3rd March 2010 and 11th March 2010 respectively. The m/v "Tropic Brilliance" is expected to be delivered to the new owners at the beginning of April 2010.

17. **Inventories**

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Bunkers	28,727	15,823	28,162
Lubricants	14,153	13,720	12,261
Victualling and slopchest	1,475	1,310	1,167
Other	3,772	2,415	2,766
	48,127	33,268	44,356

18. **Trade and Other Receivables**

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Amounts due from charterers	48,540	78,802	69,295
Allowance for doubtful debts	(3,041)	(2,876)	(2,709)
	45,499	75,926	66,586
Casualty and other claims	82,562	35,389	39,485
Agents' balances	10,236	6,193	6,394
Other debtors	40,289	50,755	40,906
Prepayments	14,417	9,124	12,039
Voyage suspense account	17,272	9,594	6,241
Accrued income	2,628	6,735	7,780
	212,903	193,716	179,431

18. **Trade and Other Receivables (continued)**

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 and contracts of affreightment 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.$27.878 million (2008 – U.S.$44.366 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.$17.621 million (2008 – U.S.$31.56 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	2007 U.S.$'000
Up to one month	7,249	20,570	12,773
One to two months	3,778	4,979	1,537
Two to three months	1,330	3,075	413
Three to four months	292	335	440
More than four months	4,972	2,601	2,504
	17,621	31,560	17,667

Movement in the allowance for doubtful debts

	2009 U.S.$'000	2008 U.S.$'000
Balance at the beginning of the period	2,876	2,709
Amounts written off during the period	(7)	(593)
Amounts recovered during the period and recognised in the income statement	(455)	(96)
Increase in allowance recognised in the income statement	613	880
Exchange adjustments	14	(24)
	3,041	2,876

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 10% (2008 – 12%) of the total amounts due. Accordingly, management believes that there is no further credit provision required in excess of the allowance for doubtful debts.

Included within casualty and other claims is an amount of U.S.$68.5 million (2008 – U.S.$16.7 million) representing legal fees and securities placed to the court for legal costs connected with the claims described in note 39. In the opinion of management the above balances will be fully recovered in the foreseeable future.

Other debtors as at 31st December 2009 and 31st December 2008 include an amount of U.S.$13.10 million (2008 – U.S.$12.70 million) held as security by the American Courts in relation to the arrest of one of the group's vessels in the United States, which is also connected with the claim referred to in note 39.

19. **Share Capital**

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Authorised, issued and fully paid 1,966,697,210 shares of 1 Rouble each	405,012	405,012	405,012

	Number of shares	Share capital U.S.$'000	Share premium U.S.$'000
Balance at 1st January 2007	1,364,538,517	380,407	-
Issue of shares in exchange for shares in JSC Novoship in 2007 (note 1)	602,158,693	24,605	818,845
Balance at 31st December 2009 and 31st December 2008	1,966,697,210	405,012	818,845

20. Group Reconstruction Reserve

	2009 U.S.$'000	2008 U.S.$'000
Surplus arising on group reconstruction in 2007	8,960	8,960
Shares issued by OAO Sovcomflot in exchange for shares in JSC Novoship in 2007 (note 1)	(843,450)	(843,450)
At 1st January and 31st December	(834,490)	(834,490)

21. Dividends

Dividends of Roubles 0.51 per share totalling Roubles 1,000.931 million (2008 – Roubles 0.49 per share totalling 959,779 million), equivalent to U.S.$31.988 million (2008 – U.S.$40.916 million) were declared on 30th June 2009 and paid on 8th July 2009, representing 84% of the company's undistributed profits for the preceding year, as computed under Russian accounting regulations.

22. Secured Bank Loans

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

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Repayable			
- within twelve months after the end of the reporting period	196,878	207,065	151,871
- between one to two years	161,510	191,467	198,036
- between two to three years	202,865	154,468	149,569
- between three to four years	843,001	155,732	143,969
- between four to five years	167,188	605,335	145,095
- after more than five years	960,134	980,319	1,466,313
	2,531,576	2,294,386	2,254,853
Less current portion (current liabilities)	(196,878)	(207,065)	(151,871)
Long-term balance (non-current liabilities)	2,334,698	2,087,321	2,102,982

The secured loans are repayable in quarterly instalments with final payments due between February 2010 and March 2021 at interest rates based on US LIBOR plus margins ranging between 0.35% and 1.1875% with a weighted average margin as at the end of the period of 0.7504%, except for a loan of U.S.$89.01 million (2008 – U.S.$100.24 million) for which the interest rate had been fixed at 4.75% plus margins of 0.50% or 0.75% depending on the employment of the vessels mortgaged, and a loan of U.S.$42.00 million, acquired on acquisition of the subsidiary referred to in note 34(a), for which the interest rate had been fixed at 4.75%, both with final repayment dates in July 2018.

The group has the option to repay in whole or any part of the loans on the last date of each monthly, quarterly or semi-annual interest period or such longer interest period as the lenders may agree.

As security for the loans, the lenders have first preferred mortgages on group vessels with an aggregate carrying value at 31st December 2009 of U.S.$4.136 million (2008 – U.S.$3.859 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in note 8 and pledges of shares in certain of the vessel owning companies.

The group has also guaranteed its share of obligations and responsibilities arising under the loan agreements of its joint ventures referred to in note 13.

Bank balances include approximately U.S.$77.695 million (2008 – U.S.$49.418 million) secured under loan agreements or other facilities provided by the group's bankers including an amount of U.S.$36.4 million (2008 – U.S.$19.6 million) held as counter security for the claims filed in London referred to in note 39.

23. Finance Lease Liabilities

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Repayable			
- within twelve months after the end of the reporting period	54,099	12,251	1,300
- between one to five years inclusive	57,732	110,444	6,060
- after more than five years	-	-	11,288
	111,831	122,695	18,648
Less current portion (current liabilities)	(54,099)	(12,251)	(1,300)
Long-term balance (non current liabilities)	57,732	110,444	17,348

23. **Finance Lease Liabilities (Continued)**

The group, through the acquisition of Marpetrol in 2006, acquired the 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.$2.75 million to U.S.$7.75 million.

In addition, during 2008 the group entered into time charter agreements for the chartering in of two Ice Product tankers expiring in July 2010 and February 2011. The charter hires are payable monthly in advance at daily rates of U.S.$25,000. At the inception of the leases, the group had the intention to exercise its options to acquire the vessels on expiry of the time charter agreements at predetermined prices. Consequently, the vessels have been recognised as fleet with a corresponding finance lease liability. The effective interest rates implicit in these finance leases are 6.46% and 8.90% per annum.

24. **Provision for Onerous Contracts**

	2009 U.S.$'000	2008 U.S.$'000
At 1st January	40,687	-
Allocated to payments made during the period for tonnage under construction (note 8)	(5,700)	-
(Released) / provided for during the period	(22,069)	40,687
At 31st December	12,918	40,687
Less current portion (current liabilities)	(10,110)	(7,387)
Long-term balance (non-current liabilities)	2,808	33,300

As at 31st December 2008 management carried out an impairment review of the carrying amounts of tonnage under construction and contracts for the construction of vessels and concluded that the recoverable amount was their market value provided by independent professional brokers. The review led to a recognition of impairment provisions in respect of four ice class Aframax tanker contracts and two Asphalt carrier contracts of U.S.$58.5 million, which was first allocated against payments already made under these contracts. The remaining balance had been classified as a provision at 31st December 2008.

As at 31st December 2009 management carried out an impairment review and concluded that the recoverable amount was the higher of their market values, provided by independent professional brokers, and their future value in use. The review led to a partial release of the impairment provision made at 31st December 2008 in respect of four ice class Aframax tanker contracts and a release of the impairment provision made in respect of two Asphalt carrier contracts totalling U.S.$36.033 million, of which $13.964 million was first allocated to payments already made under this contracts and the remaining balance of $22.069 million has been allocated against the provision.

The main assumptions used in performing value in use calculations are disclosed in note 7 of these financial statements.

The following sensitivity analysis has been performed by management, all other things being equal:

- A decrease in freight rates of 10% over the useful economic life of the tonnage under construction after delivery from the shipyards would result in an additional impairment provision of U.S.$45.444 million as at 31st December 2009; and
- An increase in the discount rate of 1% would result in an additional impairment provision of U.S.$21.241 million as at 31st December 2009.

25. **Derivative Financial Instruments**

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
(a) Hedging instruments	91,990	165,758	42,870
(b) Classified at fair value through profit or loss	36,878	44,759	7,902
Net liabilities	128,868	210,517	50,772

The use of financial derivatives is governed by the group's policies approved by the executive board, 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.

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

(a) Hedging instruments

	2009 U.S.$'000	2008 U.S.$'000
At 1st January	165,758	42,870
Increase of shareholding in the joint ventures (note 34(b))	4,366	-
Released during the period and credited to other comprehensive income	(36,065)	(5,107)
(Released) / provided during the period and (credited) / debited to other comprehensive income	(38,720)	122,577
(Released) / provided for during the period and (credited) / debited to the income statement	(3,349)	5,418
At 31st December	91,990	165,758

The group entered into interest rate swap agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations. As of 31st December 2009 the group had the following interest rate swap agreements amortising in accordance with the initial repayment schedules of the relevant loans at fixed rates compared to U.S.$ three month LIBOR as follows:

Type of instrument	Notional amount 2009 U.S.$'000	Notional amount 2008 U.S.$'000	Fixed interest rate	Expiry date
Swap	33,360	35,640	4.4700%	12th December 2016
Swap	399,975	393,943	5.7575%	1st March 2021
Swap[1]	63,202	52,325	5.0610%	31st October 2019
Swap[1]	8,696	7,144	5.0100%	31st October 2019
Swap[1]	66,157	54,731	5.0660%	4th January 2020
Swap[1]	8,401	6,891	4.7275%	4th January 2020
Swap[1]	25,202	51,000	5.4200%	7th December 2020
Swap[1]	30,150	-	4.6650%	7th December 2020
Swap[1]	42,000	72,000	4.9150%	30th January 2021
Swap[1]	31,357	-	5.1500%	30th January 2021
Swap	36,750	39,750	4.0350%	30th November 2010
Swap	24,500	26,500	3.6500%	30th November 2010
Swap[2]	36,750	39,750	2.4000%	29th November 2013

[1] Represents the group's share in the joint ventures (note 13). Fiona has severally guaranteed to the hedging bank the performance of all the obligations and liabilities under the swap agreements limited to its percentage holding in the equity share capital of the four joint venture companies.

[2] The bank has the option to terminate the swap on each date coinciding with the quarterly repayment instalments of the loan.

(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 received during the period	-	3,187
Fair value of instruments at inception	-	8,775
(Released) / provided for during the period and (credited) / debited to the income statement	(7,881)	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	36,878	44,759

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.

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

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
Swaption				
Swaption	50,000	50,000	4.59%	5th March 2012
Swaption	50,000	50,000	4.59%	6th March 2014
Swaption				
Swaption	55,000	55,000	4.40%	22nd May 2012
Swaption	55,000	55,000	4.40%	22nd May 2014
Swaption				
Swaption	50,000	50,000	4.17%	22nd May 2012
Swaption	50,000	50,000	4.17%	22nd May 2014
Collar, sold Cap and knock in				
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
Collar and Knock out				
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
Callable				
IRS	50,000	50,000	3.80%	22nd October 2010
Swaption	50,000	50,000	3.80%	22nd October 2013
Callable				
IRS	50,000	50,000	2.89%	29th November 2010
Swaption	50,000	50,000	2.89%	29th November 2010
Swaption				
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
Callable				
IRS	-	50,000	2.87%	16th January 2009
Swaption	50,000	50,000	2.87%	18th January 2011
Collar and knock in / out				
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 profit for the period ended 31st December 2009 would increase / decrease by approximately U.S.$16.72 million and U.S.$16.57 million respectively due to the change in the fair value of the derivative financial instruments held for trading through profit or loss.

The group also uses derivative financial instruments to manage its exposure to changes in foreign exchange rates and to offset the price risk associated with bunkers. As at 31st December 2009 and 31st December 2008 the group did not hold any foreign currency derivative financial instruments.

The net gain / (loss) in derivative financial instruments classified at fair value through profit or loss written off 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
	7,881	(36,857)

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

Derivative financial instruments are classified in the statement of financial position as follows:

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Non-current asset	-	-	(178)
Current asset	-	-	(387)
Non-current liability	57,959	137,688	37,569
Current liability	70,909	72,829	13,768
	128,868	210,517	50,772

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

26. **Retirement Benefit Obligations**

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Assets			
Past service cost related to long-term service retirement benefit plans	3,590	4,044	-
Liabilities			
Post retirement pension benefit plans	2,278	1,587	2,066
Long-term service retirement benefit plans	6,455	6,218	2,278
	8,733	7,805	4,344

A subsidiary of the group operates two defined benefit retirement plans, a post retirement pension benefit plan and a long-term service retirement benefit plan for its seafarers and shore based staff.

Post retirement service 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 subsidiary 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.

In 2008, the subsidiary of the group introduced a defined lump sum long term service retirement benefit scheme for its seafarers working on foreign flag vessels. Changes in the past service cost relating to this to long-term service retirement benefit plan are as follows:

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
At 1 January	4,044	-	-
Service costs of plans introduced during the period	-	4,322	-
Amortisation of past service costs	(454)	(278)	-
	3,590	4,044	-

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
Present value of obligation at 31st December	2,278	1,587	2,066	1,925

26. **Retirement Benefit Obligations (Continued)**

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	-	-
Present value of obligation at 31st December	6,455	6,218	2,278	-

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
	1,422	591	891	726

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

27. **Income Taxes**

	2009 U.S.$'000	2008 U.S.$'000
Russian Federation profits tax	18,480	23,920
Overseas income taxes	(809)	512
Adjustments recognised in the current period in relation to the income tax of prior period (Russian Federation profit tax)	155	(2,272)
Income tax expense	17,826	22,160
Deferred tax	(1,821)	(16,847)
Total tax expense	16,005	5,313

Under the laws of the countries of incorporation and / or vessels' registration, a limited number of vessel owning and operating subsidiaries are subject to tax on international shipping income.

Management is 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 International Register of Vessels and in the Special Registry of Ships and Maritime Companies of the Canary Islands (Spain) (the "SRSMC").

Russian Federation profits tax is payable in Roubles at an effective rate of 20% (2008 – 24%) on the profits arising on Russian operations, as adjusted for Russian fiscal purposes. Taxes are also payable on the results of the group's overseas management, agency and broking subsidiaries. The liability to taxation of the other subsidiaries is insignificant.

27. **Income Taxes (Continued)**

The Russian Federation profits tax is computed as follows:

	2009 U.S.$'000	2008 U.S.$'000
Profit before income taxes	232,843	411,553
Profits taxable in other tax jurisdictions	(208,672)	(407,661)
Adjustment to reclassify in accordance with Russian accounting standards	(559)	(18,205)
Intra-group dividends	80,410	75,901
Russian accounting profit before income taxes	104,022	61,588
Income tax using Russian Federation income tax rate of 20% (2008 - 24%)	20,804	14,781
Tax effect of tax allowable income and tax disallowable expenses	9,080	20,371
Difference in tax rate of dividends received	(12,482)	(12,299)
Tax on dividends of treasury shares	1,078	1,067
Adjustments recognised in the current period in relation to the income tax of prior periods (Russian Federation profit tax)	155	(2,272)
Overseas taxes	(809)	512
Income tax expense	17,826	22,160

Deferred Tax

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

	Opening balance U.S.$'000	Released / (charged) to income U.S.$'000	Exchange differences U.S.$'000	Closing balance U.S.$'000
At 31st December 2009				
Deferred tax assets	1,602	710	(76)	2,236
Deferred tax liabilities	(15,200)	1,111	1,594	(12,495)
	(13,598)	1,821	1,518	(10,259)
At 31st December 2008				
Deferred tax assets	2,041	(2,752)	2,313	1,602
Deferred tax liabilities	(33,537)	19,599	(1,262)	(15,200)
	(31,496)	16,847	1,051	(13,598)

Deferred tax assets / (liabilities) arise from the following:

Year 2009

	Opening balance U.S.$'000	Released / (charged) to income U.S.$'000	Exchange differences U.S.$'000	Closing balance U.S.$'000
Fleet	(10,310)	1,561	(108)	(8,857)
Drydock	(493)	290	(32)	(235)
Other fixed assets	(907)	120	-	(787)
Finance leases	552	124	(2)	674
Bank loans	(1,580)	22	1,440	(118)
Hedging instruments	608	-	(188)	420
Pensions	398	-	(52)	346
Other	354	(296)	(2)	56
Gains on disposal of assets reinvested	(2,220)	-	462	(1,758)
	(13,598)	1,821	1,518	(10,259)

27. **Income Taxes (Continued)**

Year 2008

	Opening balance U.S.$'000	Released / (charged) to income U.S.$'000	Exchange differences U.S.$'000	Closing balance U.S.$'000
Fleet	(20,878)	14,602	(4,034)	(10,310)
Drydock	(3,513)	(1,280)	4,300	(493)
Other fixed assets	-	(907)	-	(907)
Finance leases	1,178	(588)	(38)	552
Bank loans	(5,054)	3,354	120	(1,580)
Hedging instruments	(104)	78	634	608
Pensions	490	(68)	(24)	398
Other	(737)	1,134	(43)	354
Gains on disposal of assets reinvested	(2,878)	522	136	(2,220)
	(31,496)	16,847	1,051	(13,598)

On 7th February 2008 nine out of twelve vessels owned by Marpetrol and its subsidiaries were admitted into the Spanish tonnage tax regime for a period of ten years, effective 1st January 2008. It is the intention of management to extend the registration under the regime on expiration. Consequently, net deferred tax liabilities of approximately U.S.$9.2 million have been released to the income statement in 2008.

28. **Trade and Other Payables**

	2009 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Trade creditors	61,388	56,602	51,653
Other creditors and accruals	62,205	57,203	79,712
Deferred income	41,778	46,684	11,541
Accrued interest	10,616	10,614	38,967
	175,987	171,103	181,873

29. **Minority Interest**

	Retained Earnings U.S.$'000	Hedging Reserve U.S.$'000	Currency Reserve U.S.$'000	Fair value Reserve U.S.$'000	Total U.S.$'000
Balance 1st January 2008	436,249	14	647	238	437,148
Total comprehensive income	65,560	(668)	(1,084)	(157)	63,651
Dividends (note 21)	(6,541)	-	-	-	(6,541)
Effect of acquisition of minority interest in JSC Novoship	(110,193)	1,230	1,042	(118)	(108,039)
Effect of buy-back of shares by JSC Novoship	(36,945)	-	-	-	(36,945)
Balance 31st December 2008	348,130	576	605	(37)	349,274
Total comprehensive income	13,917	113	134	197	14,361
Dividends (note 21)	(2,885)	-	-	-	(2,885)
Effect of buy back of shares by JSC Novoship	(155,343)	(897)	(953)	11	(157,182)
Balance 31st December 2009	203,819	(208)	(214)	171	203,568

30. **General and Administrative Expenses**

	2009 U.S.$'000	2008 U.S.$'000
Administration expenses	64,083	88,083
Project related expenses	753	1,385
Non-income based taxes	11,762	10,196
Bank charges and fees	3,532	3,589
	80,130	103,253

30. **General and Administrative Expenses (Continued)**

Administration expenses are analysed as follows:

	2009 U.S.$'000	2008 U.S.$'000
Head office costs	17,729	24,482
Russian offices costs	10,491	18,325
Overseas offices costs and other general expenses	31,627	40,890
Legal and professional fees	2,745	2,707
Audit and accountancy fees	1,491	1,679
	64,083	88,083

Non-income based taxes are analysed as follows:

	2009 U.S.$'000	2008 U.S.$'000
Russian Federation taxes		
- Irrecoverable value added tax	7,351	6,297
- Payroll taxes	1,582	1,546
- Property tax	203	340
Overseas taxes		
- Payroll taxes	1,930	1,387
- Tonnage tax	696	626
Non-income based taxes	11,762	10,196

31. **Cash Generated From Operations**

	2009 U.S.$'000	2008 U.S.$'000
Profit for the period before income taxes	232,843	411,553
Share of losses / (gains) in associates	3,375	(2,009)
Income and non - income based taxes	27,767	15,509
Depreciation and amortisation	202,072	194,832
Impairment of goodwill	3,074	5,932
Vessels' impairment provision	24,428	48,040
(Release) / provision for impairment of tonnage under construction	(13,964)	17,813
(Release) / provision for onerous contract	(22,069)	40,687
Vessels' drydock cost amortisation	42,512	41,104
Loss / (gain) on sale of assets	2,395	(26,420)
Gain on disposal of other investments	(406)	(190)
Interest expense	102,825	104,102
Bank and other interest receivable	(14,718)	(16,800)
(Gain) / loss on derivative financial instruments held for trading	(7,881)	36,857
(Gains) / loss on hedging instruments	(3,349)	5,418
Foreign exchange losses	6,263	16,657
Loss on available for sale investments	-	1,061
Increase in provision for bad debts	158	784
Other income	(19,368)	(40,124)
Operating cash flows before movements in working capital	565,957	854,806
(Increase) /decrease in inventories	(14,859)	11,088
Increase in trade and other receivables	(24,271)	(17,523)
Increase in payables	3,633	458
Cash generated from operations	530,460	848,829

32. **Net Other Operating Income**

	2009 U.S.$'000	2008 U.S.$'000
Gross revenues	20,649	27,420
Cost of sales		
- Wages and salaries	(6,773)	(9,554)
- Social security costs	(1,648)	(2,333)
- Other cost of sales	(4,187)	(8,101)
Administrative expenses	(5,666)	(7,030)
Other operating income	6,714	12,428
Other operating expenses	(106)	(2,001)
Net other operating income	8,983	10,829

33. **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	137,733	123,948
- Defined contribution pension plans	1,158	840
- Long-term service defined benefit plans	275	100
- Social security costs	1,873	2,540
	141,039	127,428
Shore based staff		
- Wages and salaries	54,689	73,490
- Defined contribution pension plans	807	628
- Long-term service defined benefit plans	234	626
- Social security costs	3,512	6,733
	59,242	81,477
Total employee costs	200,281	208,905

The number of employees employed by the company, its subsidiaries and joint ventures at 31st December 2009 was 4,679 (2008 – 5,079) comprising ships' staff of 2,923 (2008 – 2,847) and shore-based staff of 1,756 (2008 – 2,232).

Compensation of key management personnel

The remuneration of directors and other members of key management, including compensation of key management personnel of Novoship, was as follows:

	2009 U.S.$'000	2008 U.S.$'000
Short-term benefits	8,869	17,026
Post employment benefits	79	81
Long-term service benefits	205	79
	9,153	17,186

In addition to bonuses paid and expensed in 2008 relating to the period ended 31st December 2007, short-term benefits for 2008 include accruals for bonuses relating to the period ended 31st December 2008.

34. **Acquisition of Subsidiary and Joint Ventures**

(a) Acquisition of a subsidiary

On 11th September 2009 the group acquired the entire share capital in Prisco Sakhalin Support Vessels Limited ("PSSV"), incorporated in "Cyprus". It also acquired the 50% of the share capital (effective shareholding 33.333% based on shareholder's agreements) of "PSSV" subsidiaries and joint ventures. The fair values of the interest in the assets and liabilities acquired were as follows:

34. **Acquisition of Subsidiary and Joint Ventures (Continued)**

	Carrying Value U.S.$'000	Fair value adjustment U.S.$'000	Fair value on acquisition U.S.$'000
Fleet	69,901	9,410	79,311
Drydock	252	-	252
Other fixed assets	960	-	960
Cash and cash equivalents	2,362	-	2,362
Accounts receivable	3,040	-	3,040
Accounts payable	(25,958)	-	(25,958)
Bank loans	(43,200)	-	(43,200)
	7,357	9,410	16,767
Net cash out flow arising on acquisition			
Total purchase consideration			(16,767)
Amount payable on finalisation			804
Cash consideration paid			(15,963)
Intercompany balances of seller settled on acquisition			(18,360)
Cash and cash equivalents acquired			2,362
Net cash outflow arising on acquisition			(31,961)

(b) Acquisition of joint ventures

On 30th November 2009, Fiona acquired from NYK an additional 10% shareholding in NYK-SCF LNG Shipping No.1 Limited and in NYK-SCF LNG Shipping No.2 Limited, (referred in note 13). The price of the transfer was equal to the par value of the shares transferred plus an amount equal to the amount of principal and interest outstanding in respect of the percentage on NYK shareholders loans being sold to Fiona, plus a premium on interest.

	Carrying/Fair Value on acquisition U.S.$'000
Fleet	35,024
Drydock	260
Cash and cash equivalents	2,996
Accounts receivable	467
Accounts payable	(835)
Shareholders loans	(8,856)
Bank loans	(28,866)
Hedging instruments	(4,366)
	(4,176)
Intangible assets recognised on acquisition	5,572
Total purchase consideration satisfied by cash	1,396
Net cash out flow arising on acquisition	
Cash consideration paid	(1,396)
Intercompany balances of seller settled on acquisition	(8,856)
Cash and cash equivalents acquired	2,996
Net cash outflow arising on acquisition	(7,256)

35. **Significant Subsidiary Companies**

In addition to the joint ventures referred to in note 13, at 31st December 2009, the group had 119 single vessel owning and operating subsidiaries incorporated in Liberia, Malta, Cyprus, and the Marshall Islands. The most significant subsidiaries of the group comprised:

Name	Country of Incorporation	Percentage Holding	Activity
JSC Novoship	Russia	68.32%	Shipowning and operating and ship management
Fiona Trust and Holding Corporation and its subsidiaries	Liberia	100%	Vessel owning and operation
Intrigue Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
Novoship Holdings Limited and its subsidiaries	Cyprus	100%	Vessel owning and operation
SCF Varandey LLC	Russia	100%	Ship operation
Sovcomflot Bulk Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
W.W. Marpetrol S.A and its subsidiaries	Spain	100%	Vessel owning and operation and ship management
Sovcomflot (UK) Ltd	U.K.	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
Unicom Management Services (Cyprus) Limited	Cyprus	100%	Ship management
Unicom Management Services (St. Petersburg) Ltd	Russia	100%	Ship management
SCF Terminal Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation

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 borrowings 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 and the net adjusted debt ratio. 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 7 ("total adjusted capital"). Net debt is calculated as the total of secured bank loans and finance lease liabilities, disclosed in notes 22 and 23 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.S.$'000	2008 U.S.$'000
Secured bank loans (note 22)	2,531,576	2,294,386
Finance lease liabilities (note 23)	111,831	122,695
Less: cash and cash equivalents	(335,695)	(298,119)
Net debt	2,307,712	2,118,962
Total equity	3,074,894	2,816,963
Total capital	5,382,606	4,935,925
Net debt ratio	42.9%	42.9%
Total capital	5,382,606	4,935,925
(Deficit) / excess of market value of fleet over carrying value	(129,987)	1,892,265
Total adjusted capital	5,252,619	6,828,190
Net adjusted debt ratio	43.9%	31.0%

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

(b) Categories of financial instruments

	2009 U.S.$'000	2008 U.S.$'000
Financial assets		
Available for sale	2,337	1,057
Held to maturity investments	878	6,446
Loans and receivables (including cash and cash equivalents)	606,523	487,770
Total financial assets	609,738	495,273
Non-financial assets	5,457,902	5,231,723
Total assets	6,067,640	5,726,996
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	91,990	165,758
Financial liabilities at fair value through profit or loss	36,878	44,759
Amortised cost	2,786,348	2,596,945
Total financial liabilities	2,915,216	2,807,462
Non-financial liabilities	77,530	102,571
Total liabilities	2,992,746	2,910,033
Total equity	3,074,894	2,816,963
Total equity and liabilities	6,067,640	5,726,996

(c) Fair value of financial instruments

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

	Carrying Value		Fair Value	
	2009 U.S.$'000	2008 U.S.$'000	2009 U.S.$'000	2008 U.S.$'000
Financial liabilities				
Borrowings at fixed interest rates	131,014	100,241	123,421	93,369
Borrowings at floating interest rates	2,400,562	2,194,145	2,210,917	2,001,017
Finance lease liabilities	111,831	122,695	82,396	123,166
	2,643,407	2,417,081	2,416,734	2,217,552

- 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 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.

Included in finance lease liabilities above are two Ice Product tankers for which the group has the option to acquire on expiry of the current time charter agreements (see note 23). The market value of these vessels, provided by independent professional brokers, as at 31 December 2009, was substantially lower than the option exercise price, and it is unlikely that the options will be exercised. Consequently, the fair value of the associated finance lease liabilities represents the fair value of the remaining time charter hire payments to the expiry of the charters plus their market value as at 31 December 2009.

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

(c) Fair value of financial instruments (continued)

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments as at 31st December 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
Financial assets				
Quoted equity investments	2,337	-	-	2,337
Financial liabilities				
Derivative financial instruments classified at fair value through profit or loss	-	36,878	-	36,878
Derivative instruments in designated hedge accounting relationships	-	91,990	-	91,990
Retirement benefit obligations	-	-	8,733	8,733
	-	128,868	8,733	137,601

There were no transfers between Level 1 and 2 during the year ended 31st December 2009. A reconciliation of Level 3 financial liabilities is presented in note 26. Total gains and losses on Level 3 fair value measurements are recognised in the 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.

Market risk

Foreign 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 Sterling Pound. 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.

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

Market risk (continued)

Foreign currency risk (continued)

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)	12,097	11,481	49,107	34,470
Russian Roubles (RUR)	20,884	16,489	44,881	84,975
Sterling Pounds (GBP)	4,999	3,785	2,681	13,970
Others	2,153	1,476	1,260	1,846

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

	Liabilities		Assets	
	2009 U.S.$'000	2008 U.S.$'000	2009 U.S.$'000	2008 U.S.$'000
Euro (EUR)	1,099	1,043	4,464	3,133
Russian Roubles (RUR)	1,899	1,499	4,080	7,725
Sterling Pounds (GBP)	454	344	244	1,270
Others	196	134	115	168

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

	Liabilities		Assets	
	2009 U.S.$'000	2008 U.S.$'000	2009 U.S.$'000	2008 U.S.$'000
Euro (EUR)	1,344	1,276	5,456	3,830
Russian Roubles (RUR)	2,320	1,832	4,987	9,442
Sterling Pounds (GBP)	555	421	298	1,552
Others	239	164	140	208

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.

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 executive board. 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 25 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)	2,413,562	2,207,976
Notional amount of floating to fixed rate swaps	(806,601)	(779,674)
Net exposure to interest rate fluctuations	1,606,961	1,428,302
% of borrowing exposed to interest rate fluctuations	66.58%	64.69%

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

(d) Financial risk factors (continued)

Cash flow interest rate risk (continued)

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.$14.23 million (2008 – increase / decrease by U.S.$13.92 million), excluding any interest capitalised. This is mainly attributable to the exposure of the group's floating rate borrowings not hedged; and

- hedging reserve and profit for the period would increase by approximately U.S.$48.6 million and U.S.$1.9 million / decrease by approximately U.S.$48.9 million and U.S.$2.1 million respectively (2008 – increase by approximately U.S.$53.4 million and U.S.$2.4 million / decrease by approximately U.S.$58 million and U.S.$2.7 million) due to the change in the fair value of interest rate swaps designated as hedging instruments.

The group's sensitivity to interest rate net exposure has decreased during the period mainly due to the increase of the notional principal amount of interest rate swaps used to hedge floating rate borrowings.

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 64.8% of the vessels' total trading days were on time charter (2008 – 66.4%) representing 58.80% (2008 – 46.95%) of freight and hire receivable. As at 31st December 2009, 60.84% of the vessels were on time charter (2008 – 65.35%).

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 18 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 14.5% and 11.8% (2008 – 16.8%, 11.7% and 11.2%) of total deposits of U.S.$334 million (2008 – U.S.$303 million).

Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset and arises because of the possibility that the group could be required to pays its liabilities earlier than expected.

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.

Below is a table summarising additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

	Credit facilities U.S.$'000	Drawn down U.S.$'000	Available U.S.$'000
At 31st December 2009			
Secured bank term loans	100,000	(36,600)	63,400
Secured revolving credit facilities	1,105,055	(730,300)	374,755
	1,205,055	(766,900)	438,155
At 31st December 2008			
Secured bank term loans	452,678	(257,866)	194,812
Secured revolving credit facilities	1,073,012	(403,790)	669,222
	1,525,690	(661,656)	864,034

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

(d) Financial risk factors (continued)

Liquidity risk (continued)

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
At 31st December 2009				
Trade and other payables	142,560	-	-	142,560
Minimum lease payments under finance leases	59,804	60,733	-	120,537
Secured bank loans	198,902	1,381,814	964,059	2,544,775
Interest payable on secured loans	77,348	335,296	176,719	589,363
	478,614	1,777,843	1,140,778	3,397,235
At 31st December 2008				
Trade and other payables	170,014	-	-	170,014
Minimum lease payments under finance leases	21,221	119,901	-	141,122
Secured bank loans	224,823	1,141,027	985,448	2,351,298
Interest payable on secured loans	77,207	339,819	217,508	634,534
	493,265	1,600,747	1,202,956	3,296,968

The payment of the group's contractual commitments under its newbuilding programme referred to in note 8 is summarised as follows:

	Less than 1 year U.S.$'000	1 to 2 years U.S.$'000	Total U.S.$'000
At 31st December 2009			
US Dollar contracts	419,818	39,625	459,443
Euro contracts (US$ equivalent)[1]	18,731	-	18,731
	438,549	39,625	478,174
At 31st December 2008			
US Dollar contracts	598,050	349,954	948,004
Euro contracts (US$ equivalent)[1]	12,870	32,527	45,397
	610,920	382,481	993,401

[1] The conversion of Euros to US Dollars is based on the exchange rate prevailing at the end of each financial reporting period.

37. **Operating Lease Arrangements**

The group has the following non-cancellable operating lease commitments in respect of vessels and office premises in London, Moscow and St. Petersburg:

	Vessels		Buildings	
	2009 U.S.$'000	2008 U.S.$'000	2009 U.S.$'000	2008 U.S.$'000
Within twelve months of the end of the reporting period	10,139	14,126	3,200	3,578
Between one to five years	-	10,139	9,615	12,127
After more than five years	-	-	4,022	4,656
	10,139	24,265	16,837	20,361
Expensed during the period	14,112	21,014	3,122	2,881

38. **Contingent Liabilities and Commitments**

Contracted revenues and guarantees

The group enters into short to medium-term time charters and voyage charters during its normal course of business. In addition to the time charter agreements referred to in note 14(b), the group has entered into long-term time charter agreements, expiring after more than five years with aggregate time charter hire receivable as at 31 December 2009 analysed as follows:

	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
Group's share of contracted revenues of joint ventures (note 13)	41,268	165,073	510,829	717,170
Contracted revenues of subsidiaries	144,719	515,250	1,331,726	1,991,695
	185,987	680,323	1,842,555	2,708,865

The long term time charters referred to above include various charterers' purchase, termination and extension options.

The joint venture companies referred to in note 13 entered into four time charter agreements which expire between sixteen and twenty years with various extension options with aggregate time charter hire receivable as at the period end over the remaining firm charter periods amounting to U.S.$1.54 billion. Under two of the time charter agreements the charterers have the option to purchase the vessels in years five, ten, fifteen or twenty of the charters at amounts for each vessel ranging from U.S.$176.4 million in the fifth year to U.S.$35 million in the twentieth year. Fiona has guaranteed its share of obligations and responsibilities arising under the above time charter agreements.

In addition to the guarantees obtained by the group from the shareholders of the State controlled entity referred to in note 40(iii), the group obtained guarantees from the shareholders of the charterers in respect of the performance of the obligations of the charterers under the time charter agreements referred to in note 14(b).

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 the foreign legal entity may be required to pay income tax if it is a tax resident of such jurisdiction or if its activities constitute a permanent establishment in such a jurisdiction. Management believes that the group's shipping and holding companies incorporated in low-tax jurisdictions are not subject to taxes outside their countries of incorporation. However, the concept of permanent establishment and tax residency for legal entities introduced by domestic and international law is subject to interpretation. As a result, there is a risk that the taxation authorities of higher tax jurisdictions may attempt to subject the group's earnings to income taxes of a particular jurisdiction. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable legislation, official pronouncements and court decisions.

Revenue and capital commitments

On 1st March 2010 Novoship made a public offer to the holders of ordinary shares to buy back up to 10% of the remaining share capital of Novoship, i. e. 41,266,042 shares, at a price of Roubles 80.00 per share. In accordance with the terms of the offer the ordinary shareholders have until 14th May 2010 to express their interest in selling the shares back to the company. The total redemption value of the shares is approximately U.S.$109 million. The share buy-back is expected to be completed by the end of May 2010.

In 2005 the parent company entered into a long-term non-cancellable operating lease agreement in respect of a preserved office building in St. Petersburg, Russian Federation. The lease term is for forty nine years expiring on 27th March 2055 at a nominal rent. Under the agreement, Sovcomflot has an obligation to renovate the building. The cost of construction work and furnishing is expected to be approximately U.S.$16 million of which U.S.$15.636 million (2008 – U.S.$2.857 million) had been contracted for by the period end. As at 31st December 2009 U.S.$4.192 million (2008 – U.S.$1.249 million) of the contracted costs had been paid for. Sovcomflot has the option to acquire the building at any time should enacted legislation in respect of preserved buildings change at a price to be agreed upon at the time. The construction work and furnishing is expected to be completed by the beginning of 2011.

During 2007 the group chartered in, from a third party, a Suezmax tanker, for a period of 3 years, expiring in September 2010 with aggregate charter hire payable at 31st December 2009 of U.S.$10.1 million (2008 – U.S.$24.2 million).

Details of the group's capital commitments in respect of newbuilding contracts are disclosed in note 8.

Details of the group's obligations under finance leases are disclosed in note 23.

39. **Contingent Asset**

Following a review of the group's operations, in conjunction with the restructuring of the group's business, some irregularities were discovered including the sale of four subsidiary companies which owned shipbuilding contracts. During 2005 through to 2009 the group filed claims in London for losses arising out of various transactions which were estimated as being in the region of between U.S.$870 million and U.S.$940 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 2004 as well as on a claim against Clarksons relating to losses arising on termination of sale and leaseback transactions as a result of a year end vessel valuation performed by Clarksons as at 31 December 2003, and in respect of certain potential claims against Clarksons on the terms of the settlement.

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 is in the region of between U.S.$810 million and U.S.$880 million.

The court proceedings for the claims filed commenced at the High Court in London in October 2009.

The total amount received and / or accrued during 2008 in respect of commissions and reimbursement of legal expenses amounted to U.S.$67.223 million, including the settlement from Clarksons, of U.S.$55 million, recognised as follows:

	U.S.$'000
Fleet	25,498
Tonnage under construction	1,480
Other non-operating income / (expenses)	37,745
Trade and other receivable (casualty and other claims)	2,500
	67,223

Included in other non-operating income / (expenses) in the income statement are legal and professional fees amounting to U.S.$Nil (2008 – U.S.$6.44 million) in connection with all these claims.

40. **Related Party Transactions**

Related party transactions comprised:

(i) Included in tonnage under construction (note 8) are two new-buildings (2008 – two) with a total contracted cost of U.S.$251 million (2008 – U.S.$251 million) placed on order from a State controlled shipyard in 2006. As at 31st December 2009 instalments of U.S.$175.6 million (2008 – U.S.$ 175.6 million) were outstanding in respect of the shipbuilding agreements.

(ii) Bank balances include U.S.$49.4 million (2008 – U.S.$67.2 million) held with State controlled banks. Interest received on those accounts during the period amounted to U.S.$3.26 million (2008 – U.S.$3.61 million).

(iii) Included in the long-term time charters entered by subsidiaries of the Company, referred to in note 38 above, are two agreements entered into with a State controlled entity with aggregate hires receivable of U.S.$984 million. The charters are for 25 years and are expected to commence during 2010. The group has obtained guarantees from the State controlled shareholders of the charterers in respect of the performance of the obligations of the charterers under the time charter agreements.

(iv) The time charter agreements entered into by the joint ventures, referred to in note 38, included two agreements entered into with a subsidiary of a State controlled entity with aggregate hires receivable as at the period end over the remaining firm period of the charters of U.S.$789 million. The charters are for 20 years commencing in October 2007 and January 2008. Under the agreements, the charterers have the option to purchase the vessels as explained in note 38.

(v) On 1st June 2007 OAO Sovcomflot signed a lease agreement with JSC Rosnefteflot to lease out part of the premises owned by Sovcomflot located at 7 Dunayevskogo Street, Moscow 121165, Russian Federation. The initial lease term was for eleven months commencing on 1st June 2007 at a lease rental for the period of Roubles 16.552 million (equivalent to U.S.$0.488 million). On 1st May 2008 the lease agreement was extended for a period of eleven months at a lease rental for the period of Roubles 17.19 million (equivalent to U.S.$0.507 million), and on 1st April 2009 the lease agreement was further extended for a period of eleven months at a lease rental for the period of Roubles 17.19 million (equivalent to U.S.$0.507 million).

(vi) The group received services from one of its associates for the manning and port agency services. An amount of U.S.$0.1 million (2008 – U.S.$0.132 million) has been expensed during the period.

40. **Related Party Transactions (Continued)**

(vii) During 2008 the group entered into defined contribution pension scheme arrangements with a state controlled entity. An amount of U.S.$0.176 million (2008 – U.S.$0.239 million) has been paid into the scheme during the period. The administration fee charged by the scheme is comparable with other similar organisations and it is defined in Russian Legislation.

(viii) Delivery of seven Escort tugs on bareboat charter to an associated undertaking for a period of 15 years as explained in note 8 and 15.

(ix) The group also receives services from State controlled bodies at prices comparable with other similar organisations, the total amounts of which are not material.

41. **Events After the Reporting Period**

One Arctic Shuttle tanker the m/v “Mikhail Ulyanov” and two Suezmax tankers, the m/v “SCF Samotlor” and m/v “SCF Baikal”, were delivered to the group by the shipyards on 26th February 2010, 26th February 2010 and 25th March 2010, respectively.

Three of the four vessels classified as held for sale at the end of the financial reporting period (see also note 16), the m/v “Kochnev”, m/v “Romea Champion”, and m/v “Socol 2” were delivered to their new owners on 25th February 2010, 3rd March 2010 and 11th March 2010 respectively.

On 1st March 2010 the Board of Directors of Novoship resolved to buy back 10 % of the remaining share capital, i. e. 41,266,042 ordinary shares at a fixed price RUR 80 (U.S.$ 2.64) per share. The total buy back will amount to U.S. $109 million and is expected to be completed before the end of May 2010 (see note 38).

On 24th March 2010 the group signed an agreement for the acquisition of a second hand ice breaking supply vessel with a ten year time charter attached, for a consideration of approximately U.S.$77 million.

42. **Comparatives**

Certain comparatives have been represented in order to be consistent with the current year’s presentation. Specifically, fleet and drydock costs have been merged into one note and are included in the statement of financial position in fleet under non-current assets.

JSC SOVCOMFLOT
AND ITS SUBSIDIARY CORPORATIONS

CONSOLIDATED FINANCIAL STATEMENTS

31st December 2008

JSC Sovcomflot

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Independent Auditors' Report to the Shareholders of JSC Sovcomflot

We have audited the accompanying consolidated financial statements of JSC Sovcomflot and its subsidiaries, which comprise the balance sheet as at 31st December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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.

Auditor's 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 financial statements give a true and fair view of the financial position of the group as of 31st December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens LLP

St. Paul's House,
London, EC4M 7BP

MOORE STEPHENS LLP

Chartered Accountants

31st March 2009

JSC Sovcomflot

Consolidated Balance Sheet – 31st December 2008
(Expressed in U.S.$'000)

	Note	2008		2007	
Assets					
Non-current assets					
Fleet	7	4,128,314		3,566,369	
Tonnage under construction	8	880,079		983,142	
Drydock cost	9	81,793		73,778	
Other fixed assets	10	42,490		41,034	
Investment property	11	7,281		8,437	
Other fixed assets under construction	12	3,004		2,295	
Investments	13	8,802		5,496	
Intangible assets	15	28,663		39,598	
Derivative financial instruments	24	-		178	
Retirement benefit plans	25	4,044		-	
Deferred tax assets	28	1,602		2,041	
			5,186,072		4,722,368
Non-current assets held for sale	16		3,259		21,458
Current assets					
Inventories	17	33,268		44,356	
Trade and other receivables	18	193,716		179,431	
Derivative financial instruments	24	-		387	
Current tax receivable		5,059		9,693	
Investments	13	7,503		3,016	
Cash and cash equivalents	22	298,119		293,933	
			537,665		530,816
Total assets			5,726,996		5,274,642
Equity and liabilities					
Equity attributable to the equity holder of the parent					
Issued capital	19	405,012		405,012	
Reserves		2,062,677		1,880,330	
			2,467,689		2,285,342
Minority interest			349,274		437,148
Total equity			2,816,963		2,722,490
Non-current liabilities					
Secured bank loans	22	2,087,321		2,102,982	
Finance lease liabilities	23	110,444		17,348	
Provision for onerous contracts	26	33,300		-	
Derivative financial instruments	24	137,688		37,569	
Retirement benefit obligations	25	7,805		4,344	
Tax payable		2,045		-	
Deferred tax liabilities	28	15,200		33,537	
			2,393,803		2,195,780
Current liabilities					
Trade and other payables	27	171,103		181,873	
Secured bank loans	22	207,065		151,871	
Finance lease liabilities	23	12,251		1,300	
Current tax payable		8,650		7,560	
Provision for onerous contracts	26	7,387		-	
Derivative financial instruments	24	72,829		13,768	
Amount due to minority shareholders	36	36,945		-	
			516,230		356,372
Total equity and liabilities			5,726,996		5,274,642

Approved by the Executive Board and authorised for issue on 31st March 2009

S.O. Frank – Chairman of the Executive Board

N.L. Kolesnikov – Member of the Executive Board

JSC Sovcomflot

Consolidated Income Statement
For the year ended 31st December 2008
(Expressed in U.S.$'000)

	Note	2008		2007	
Freight and hire receivable			1,634,078		1,242,715
Voyage expenses and commissions			(397,162)		(266,692)
Time charter equivalent revenue			1,236,916		976,023
Direct operating expenses					
Vessels' running costs		274,964		236,647	
Charter hire payments		21,014		12,539	
Vessels' drydock cost amortisation	9	41,104		41,774	
			(337,082)		(290,960)
Profit on vessels' trading			899,834		685,063
Other operating expenses					
Depreciation and amortisation					
Vessels' depreciation	7	178,188		133,178	
Vessels' impairment provision	7&16	48,040		-	
Other depreciation	10	7,608		5,247	
Investment property depreciation	11	949		79	
Reversal of impairment of investment property	11	-		(5,142)	
Intangible assets' amortisation	15(b)	8,087		8,087	
			242,872		141,449
Bad and doubtful debts	18		784		576
General and administrative expenses	29		105,473		84,851
Total other operating expenses			349,129		226,876
Profit from vessels' operations			550,705		458,187
Provision for impairment of tonnage under construction	26		(17,813)		-
Onerous contract provision	26		(40,687)		-
Gain on sale of assets			26,420		120,825
Gain on disposal of investments			190		2,588
Net other operating income	30		13,049		10,927
Share of gains / (losses) in associated undertakings	13		2,009		(1,354)
Operating profit			533,873		591,173
Other (expenses) / income					
Interest expense		(104,102)		(108,834)	
Bank and other interest receivable		16,800		18,836	
Other non-operating income / (expenses)		30,907		(4,710)	
Loss on hedging instruments	24(a)	(5,418)		(1,814)	
Loss on derivative financial instruments held for trading	24(b)	(36,857)		(4,432)	
Loss on available-for-sale investments		(1,061)		-	
Impairment of goodwill	15(a)	(5,932)		-	
Differences on foreign exchange		(16,657)		3,107	
Net other expenses			(122,320)		(97,847)
Profit before income taxes			411,553		493,326
Income taxes	28		(5,313)		(22,485)
Profit for the period			406,240		470,841
Attributable to:					
Equity holder of the parent			340,680		391,009
Minority interest			65,560		79,832
			406,240		470,841

Consolidated Statement of Changes in Equity
For the year ended 31st December 2008
(Expressed in U.S.$'000)

	Share Capital (note 19)	Share Premium (note 19)	Group Reconstruction Reserve (note 20)	Hedging Reserve	Fair value Reserve
Balance 1st January 2007	380,407	-	8,960	(16,072)	281
Issue of shares	24,605	818,845	-	-	-
Profit for the period	-	-	-	-	-
Release of hedging instruments	-	-	-	619	-
Movement in hedging instruments	-	-	-	(25,964)	-
Hedging instruments written off to income statement	-	-	-	740	-
Movement in group reconstruction reserve	-	-	(843,450)	-	-
Net change in fair value of available for sale financial assets	-	-	-	-	191
Currency translation differences	-	-	-	-	-
Dividends (note 21)	-	-	-	-	-
Balance 31st December 2007	405,012	818,845	(834,490)	(40,677)	472
Profit for the period	-	-	-	-	-
Release of hedging instruments	-	-	-	(5,010)	-
Movement in hedging instruments	-	-	-	(111,792)	-
Net change in fair value of available for sale financial assets	-	-	-	-	(412)
Currency translation differences	-	-	-	-	-
Dividends (note 21)	-	-	-	-	-
Effect of acquisition of minority interest in JSC Novoship	-	-	-	(83)	44
Balance 31st December 2008 before effect of buy-back of shares	405,012	818,845	(834,490)	(157,562)	104
Effect of buy-back of shares by JSC Novoship (note 36)	-	-	-	-	-
Balance 31st December 2008	405,012	818,845	(834,490)	(157,562)	104

…. / continued

Consolidated Statement of Changes in Equity (Continued)
For the year ended 31st December 2008
(Expressed in U.S.$'000)

	Currency Reserve	Retained Earnings	Attributable to equity holder of the parent	Minority Interest	Total
Balance 1st January 2007	458	1,560,594	1,934,628	360,982	2,295,610
Issue of shares	-	-	843,450	-	843,450
Profit for the period	-	391,009	391,009	79,832	470,841
Release of hedging instruments	-	-	619	-	619
Movement in hedging instruments	-	-	(25,964)	14	(25,950)
Hedging instruments written off to income statement	-	-	740	22	762
Movement in group reconstruction reserve	-	-	(843,450)	-	(843,450)
Net change in fair value of available for sale financial assets	-	-	191	96	287
Currency translation differences	3,107	-	3,107	774	3,881
Dividends (note 21)	-	(18,988)	(18,988)	(4,572)	(23,560)
Balance 31st December 2007	3,565	1,932,615	2,285,342	437,148	2,722,490
Profit for the period	-	340,680	340,680	65,560	406,240
Release of hedging instruments	-	-	(5,010)	(97)	(5,107)
Movement in hedging instruments	-	-	(111,792)	(571)	(112,363)
Net change in fair value of available for sale financial assets	-	-	(412)	(157)	(569)
Currency translation differences	(6,321)	-	(6,321)	(1,084)	(7,405)
Dividends (note 21)	-	(40,916)	(40,916)	(6,541)	(47,457)
Effect of acquisition of minority interest in JSC Novoship	172	5,985	6,118	(108,039)	(101,921)
Balance 31st December 2008 effect of buy-back of shares	(2,584)	2,238,364	2,467,689	386,219	2,853,908
Effect of buy-back of shares by JSC Novoship (note 36)	-	-	-	(36,945)	(36,945)
Balance 31st December 2008	(2,584)	2,238,364	2,467,689	349,274	2,816,963

JSC Sovcomflot

Consolidated Cash Flow Statement
For the year ended 31st December 2008
(Expressed in U.S.$'000)

	2008		2007	
Operating Activities				
Cash received from freights and hire of vessels	1,629,702		1,230,607	
Other cash receipts	39,808		42,340	
Cash payments for voyage and running costs	(702,009)		(534,609)	
Other cash payments	(118,672)		(107,297)	
Cash generated from operations		848,829		631,041
Interest received		24,761		15,312
Taxation paid		(20,073)		(33,325)
Net cash inflow from operating activities		853,517		613,028
Investing Activities				
Acquisition of investments	(1,685)		(3,839)	
Acquisition of shares in subsidiary (note 1)	(101,921)		-	
Proceeds from sale of investments	450		3,399	
Expenditure on fleet	(4,393)		(6,159)	
Expenditure on drydocking	(34,873)		(31,770)	
Expenditure on tonnage under construction	(608,500)		(840,153)	
Interest capitalised	(20,524)		(23,470)	
Purchase of other fixed assets	(21,110)		(20,860)	
Proceeds on sale of assets	49,644		238,391	
Proceeds on sale of other fixed assets	6,634		-	
Increase in term deposits	(6,446)		-	
Other receipts (note 37)	40,017		1,367	
Net cash outflow from investing activities		(702,707)		(683,094)
Financing Activities				
Loans drawn down	502,490		1,240,299	
Repayment of loans	(462,139)		(1,043,122)	
Financing costs	(2,186)		(3,818)	
Proceeds from the termination of hedging instruments	559		1,812	
Capital element of finance leases	(13,652)		(1,358)	
Interest paid on loans	(96,576)		(108,185)	
Interest paid on finance leases	(7,728)		(1,334)	
Dividends paid	(49,633)		(22,879)	
Net cash (outflow) / inflow from financing activities		(128,865)		61,415
Increase / (decrease) in cash and cash equivalents		21,945		(8,651)
Cash and cash equivalents at beginning of period		293,933		302,584
Effect of exchange rate changes on cash and cash equivalents		(17,759)		-
Cash and cash equivalents at end of period		298,119		293,933

Non- cash transactions

During the period the group acquired two vessels by means of finance leases, see also notes 7 and 23.

Notes to the Consolidated Financial Statements – 31st December 2008

1. Basis of Preparation of Consolidated Financial Statements

On 5th December 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in JSC Novoship ("Novoship"), a company incorporated in the Russian Federation, to JSC Sovcomflot ("Sovcomflot") in exchange for 602,158,693 shares of the company, at a price of 34.28 Roubles (U.S.$1.40071) per share (see also note 19), thus uniting its interest in the two companies.

Business combinations involving entities under common control are excluded from the scope of IFRS 3 "Business Combinations" provided that they are controlled by the same party both before and after the business combination.

As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of Novoship has been accounted for on a pooling of interests basis. The financial position, financial performance and cash flows of the combined group have been brought together as if the companies had always been a single entity.

On 10th January 2008 Sovcomflot launched a mandatory public offer to acquire the 9.66% (36,301,145 shares) of the ordinary shares in Novoship, owned by minority shareholders at a price of Roubles 81.82 per share. By the expiration of the mandatory offer, on 8th April 2008, a total of 24,389,606 shares, representing 6.49% of ordinary shares in Novoship had been transferred by minority shareholders to Sovcomflot. As a result, and as the shareholding of Sovcomflot and its affiliates exceeded the 95% threshold in the ordinary share capital of Novoship, in accordance with Russian Legislation, Novoship informed its minority shareholders of their right to sell and the obligation of Sovcomflot to buy their ordinary shares. During the secondary offer period, between 16th June and 5th December 2008, an additional 5,236,159 shares were transferred by minority shareholders to Sovcomflot. The obligations of the company under the public offers had been guaranteed by a State controlled bank.

The share capital of Novoship comprises 75% voting ordinary shares and 25% non-voting preference shares. Ownership of the shares is analysed as follows:

	31st December 2008			31st December 2007		
	Ordinary shares %	Preference shares %	Total shares %	Ordinary shares %	Preference shares %	Total shares %
JSC Sovcomflot	75.01	-	56.26	67.13	-	50.34
Treasury shares held by subsidiaries of JSC Novoship	23.21	27.44	24.27	23.21	27.44	24.27
Minority shareholders	1.78	72.56	19.47	9.66	72.56	25.39
	100.00	100.00	100.00	100.00	100.00	100.00

Ordinary and preference shareholders of Novoship participate equally in the distribution of the net assets of the company on liquidation. Consequently Sovcomflot holds an effective interest in Novoship of 74.29% (2007 – 66.48%).

2. Significant Accounting Policies

(a) Basis of accounting

The financial statements have been prepared in U.S. Dollars, 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 Sovcomflot and its subsidiaries and joint ventures, for the period from 1st January 2008 (or subsequent dates of incorporation) to 31st December 2008.

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 ventures to bring their accounting policies into line with those used by other members of the group.

Notes to the Consolidated Financial Statements – 31st December 2008
(Continued)

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

(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) 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 balance sheet 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.

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.

(e) 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.

(f) 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(d) above.

Other intangible assets represent time charter agreements acquired. Amounts are reported at fair value less accumulated amortisation and accumulated impairment losses. The fair value is calculated using the effective interest rate implicit to each time charter agreement, which is the rate at which the net future cash flows associated with the time charter agreements break even. Amortisation is charged on a straight-line basis over the period of the charter.

Notes to the Consolidated Financial Statements – 31st December 2008
(Continued)

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

(g) 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.

(h) 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 balance sheet date in respect of time charter voyages in progress. Profits arising from voyage charters in progress at the balance sheet date are apportioned into accounting periods on the basis of the proportion of the voyage completed at the balance sheet date on a discharge / discharge port basis. Full provision is made for any losses on voyages in progress at the balance sheet date.

(i) 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.

(j) 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 balance sheet date 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:

	2008 Exchange rate U.S.$1	2007 Exchange rate U.S.$1
Russian Roubles	30.535	24.5387
Sterling Pounds	0.6955	0.5024
Euros	0.7194	0.6840
Swiss Francs	1.0644	1.1322

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 on reserves. All other exchange differences have been dealt with through the income statement.

(k) Borrowing costs

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

(l) Leasing

Finance and operating lease payables

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.

Notes to the Consolidated Financial Statements – 31st December 2008
(Continued)

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

(l) Leasing (continued)

Finance and operating lease payables (continued)

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.

Finance lease receivables

Amounts due from lessees under finance leases are recorded as receivable at the amount of the group's net investment in the leases calculated by discounting the total amount receivable, at the date of the lease agreement, at the interest rate implicit within the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding.

(m) 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 balance sheet 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.

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 balance sheet 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 balance sheet date, 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.

Notes to the Consolidated Financial Statements – 31st December 2008
(Continued)

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

(n) Fixed assets and depreciation

The group's fleet, buildings and other fixed assets are stated in the balance sheet at cost less accumulated depreciation and any accumulated impairment loss.

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 and chemical tankers	25 years
LNG carriers	35 years
LPG carriers	30 years
Second hand LNG carriers (note 15(b))	43 years
Multi-purpose dry cargo vessels	25 years

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

	2008 U.S.$ per LWT	2007 U.S.$ per LWT
Oil, product and chemical tankers	280	505
LNG and LPG carriers	280	518
Multi-purpose dry cargo vessels	280	475

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.

Leasehold improvements are included within other fixed assets and are depreciated over the non-cancellable period of the operating lease to which they relate.

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.

(o) Investment property

Investment property is stated in the balance sheet 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(n) above.

(p) 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.

(q) 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.

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

(r) Impairment

At each balance sheet date, 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.

(s) 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.

(t) Financial instruments

Financial assets and liabilities are recognised on the group's balance sheet 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.

Available-for-sale 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 directly in equity, in the fair value reserve, 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.

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

(t) Financial instruments (continued)

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 each balance sheet date.

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 directly in equity 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.

(u) 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. Income taxes in respect of the parent company are accounted for in accordance with Russian fiscal regulations. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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 balance sheet 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 balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 equity, in which case the tax is also recognised directly in equity, 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.

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

(v) 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 balance sheet date, 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.

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 2008.

The adoption of the Standards and Interpretations issued by the IASB has not led to any changes in the group's accounting policies.

At the balance sheet date, the following Standards and Interpretations were in issue but not yet effective:

IFRS 8	Operating Segments
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
Revised IFRS 2	Amendment relating to "Vesting Conditions and Cancellations"
IAS 32 & IAS 1	Amendments relating to disclosure of "Puttable Instruments and Obligations Arising on Liquidation"
Revised IAS 23	Borrowing Costs, Comprehensive revision to Prohibit Immediate Expensing
Revised IAS 1	Presentation of Financial Statements, Comprehensive revision including requiring a "Statement of Comprehensive Income"
Revised IAS 39	Financial Instruments, Amendments for Eligible Hedge Items
Revised IFRS 3	Business Combinations, Comprehensive revision on applying the Acquisition Method
IAS 27, IAS 28 & IAS31	Consequential Amendments Arising from Amendments to IFRS 3
Revised IFRS 1 & IAS 27	Amendments relating to "Cost of an Investment on First-time Adoption"

The 2007 IASB improvements project was finalised in May 2008. The 2007 changes impact over twenty standards. Improvement projects will now be an annual occurrence. These changes are effective for accounting periods beginning on or after 1st January 2009.

3. **Adoption of New and Revised International Financial Reporting Standards (Continued)**

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 substantial changes to the disclosures required in the financial statements, as well as, changes in the presentation of performance introduced by the revised IAS 1 which is effective for accounting periods beginning on 1st January 2009.

The revised IAS 1 will prohibit 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 will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The group will apply IAS 1 (Revised) from 1st January 2009. The directors anticipate presenting a statement of financial position together with presenting comprehensive income in two statements.

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

The following are the critical accounting judgements concerning the future and the key sources of estimation uncertainty at the balance sheet date that have a significant impact on the carrying value of assets and liabilities:

1. The estimate of the anticipated useful economic life of the fleet and the estimates of residual values used for the purpose of establishing the group's depreciation policy.

2. The fair value of the time charters attached to the vessels acquired during 2006 referred to in note 15(b).

3. The assessment of the carrying amounts of fleet and tonnage under construction to determine whether there is an indication that those assets have suffered an impairment loss.

5. **Organisation and Trading Activities**

JSC Sovcomflot was registered in Russia on 18th December 1995, as the successor undertaking to AKP Sovcomflot, in which the Russian Federation holds 100% of the issued shares.

The company, through its subsidiaries and joint ventures, is engaged in ship owning and operating on a world-wide basis with a fleet of 130 vessels at the period end, comprising 113 tankers, 1 chartered in tanker, 8 gas carriers, 5 multi-purpose dry cargo vessels, 2 bulk carriers and 1 cruise vessel.

The company's registered office address is 3A, Moika River Embankment, Saint Petersburg 191186, Russian Federation and its head office is located at 6 Gasheka Street, Moscow 125047, Russian Federation. The group's fleet is managed by JSC Novoship, Unicom Management Services (Cyprus) Limited, Unicom Management Services (St. Petersburg) Ltd and W.W. Marpetrol S.A.

Sovcomflot currently has a Baa1 global scale issuer rating with a "stable" outlook with Moody's and an Aaa.ru national scale rating with Moody's Interfax.

6. Directors and Management

The corporate structure of JSC Sovcomflot comprises a Board of Directors which is responsible for policy decisions and overall supervision of the group and an Executive Board which is responsible for day to day management.

The Board of Directors are:

S.E. Naryshkin	Chairman
A.L. Kostin	
Y.M. Medvedev	
A.S. Misharin	
G.S. Nikitin	
Ch.E. Ryan	
A.A. Sokolov	
E.B.Titova	
A.V. Tikhonov	
N.P. Tokarev	
S.O. Frank	

The Executive Board members are:

S.O. Frank	Chairman
S.N. Burima	
N.L. Kolesnikov	
A.L. Kurtynin	
C.B. Ludgate	
V.A. Mednikov	
S.G. Popravko	
Lord N.A. Fairfax	
A.V. Khlyunev	

7. **Fleet**

	2008 U.S.$'000	2007 U.S.$'000
Cost		
At 1st January 2008	4,411,267	4,113,542
Settlement of claims (note 37)	(28,252)	-
Transferred to non-current assets held for sale (note 16)	(20,116)	(78,942)
Acquired on a finance lease (note 23)	117,700	-
Transferred from tonnage under construction (note 8)	694,538	605,479
Expenditure in period	3,046	5,095
Disposals in period	-	(233,907)
At 31st December 2008	5,178,183	4,411,267
Depreciation		
At 1st January 2008	844,898	930,160
Settlement of claims (note 37)	(2,754)	-
Transferred to non-current assets held for sale (note 16)	(12,646)	(60,785)
Charge for the period	178,188	133,178
Impairment provision	42,183	-
Eliminated on disposal	-	(157,655)
At 31st December 2008	1,049,869	844,898
Net book value		
At 31st December 2008	4,128,314	3,566,369
Market value less unamortised dry-dock cost*	6,020,579	6,398,590
Current insured values*	7,464,000	6,345,292
Total deadweight tonnage (dwt)*	8,905,970	8,369,490

* Including group's share in the Joint Ventures (note 14)

Summary of fleet at 31st December 2008:

Type of vessel	Number of vessels		Dwt'000		Net book value U.S.$ million	
	2008	2007	2008	2007	2008	2007
Oil tankers and product carriers	113	106	8,538	8,080	3,678	3,319
LNG and LPG carriers **	8	5	268	164	426	218
Multi-purpose drycargo vessels	5	5	48	48	20	22
Bulk Carriers	2	3	52	77	4	7
	128	119	8,906	8,369	4,128	3,566
Vessels held for sale (note 16)	1	4	6	80	3	18
	129	123	8,912	8,449	4,131	3,584

** Includes four LNG carriers (2007 – one) owned by joint ventures (note 14). The DWT and net book value includes the group's share in the vessels of the joint ventures.

As at 31st December 2008 the directors carried out an impairment review of the carrying amounts of the vessels, and concluded that the recoverable amount of the vessels is their market values, as assessed by the directors at the period end and supported by independent professional valuations. The review led to a recognition of impairment losses of U.S.$42.183 million in the income statement.

As at 31st December 2008 the directors have reassessed the residual value of the fleet in accordance with the group's accounting policy (see note 2 (n)). The effect of this change in estimate on the results for the period has been to increase the depreciation charge by U.S.$18.7 million.

Included in the group's fleet are vessels held under finance leases with an aggregate carrying value of U.S.$201.4 million (2007 – U.S.$130.8 million). Depreciation charge in the period in respect of these vessels amounted to U.S.$10.2 million (2007 – U.S.$5.9 million).

8. **Tonnage Under Construction**

	2008 U.S.$'000	2007 U.S.$'000
At 1st January 2008	983,142	741,259
Expenditure in period	625,186	862,762
Transferred to fleet (note 7)	(694,538)	(605,479)
Transferred to drydock costs (note 9)	(15,898)	(15,400)
	897,892	983,142
Impairment loss (note 26)	(17,813)	-
At 31st December 2008	880,079	983,142
Total deadweight tonnage (dwt) including group's share under joint venture agreements (note 14)	2,705,760	2,722,845

In addition to the group's share of the capital commitments under the joint venture agreements for the construction of the remaining three LNG carriers as explained in note 14, assets under construction at 1st January 2008 comprised ten Suezmax tankers, five Aframax tankers, three Product tankers, five Arctic Shuttle tankers, two Escort tugs and four Asphalt carriers scheduled for delivery between January 2008 and October 2010 at a total contracted cost to the group of U.S.$1,945 million.

Upon delivery by the shipyard, the two Escort tugs will be delivered on bareboat charter to an associated undertaking for a period of 15 years at a rate to be calculated based on the total construction cost of the vessels. Consequently the tugs will be classified as finance lease receivables. On payment of the final hire payment, and provided that the charterers fulfil all their obligations under the bareboat charter agreements for both tugs, legal ownership of the tugs will pass to the charterers.

On 10th November 2008, the group entered into shipbuilding contracts for the construction of an additional four Escort tugs at a total contracted cost of U.S.$36.16 million (€26 million) scheduled for delivery between 20th November 2009 and 20th November 2010 with the intention to bareboat charter them to the same associated undertaking referred to above under similar terms and conditions. Bareboat charter agreements for these four tugs have not yet been completed.

During the period, the group entered into contracts for the construction of four ice class Aframax tankers at a total contracted cost of U.S.$317 million, scheduled for delivery between July and December 2010 (see also note 26).

Vessels delivered during the period comprised the following:

Vessel Name	Vessel Type	Delivery Date
Vasily Dinkov	Arctic Shuttle tanker	1st January
NS Lotus	Aframax tanker	2nd January
Grand Aniva*	LNG carrier	4th January
Transsib Bridge	Product tanker	29th April
Kapitan Gotsky	Arctic Shuttle tanker	27th May
NS Point	Oil and chemical tanker	5th August
Tangguh Towuti*	LNG carrier	15th October
NS Parade	Oil and chemical tanker	10th November
Tangguh Batur*	LNG carrier	15th December

* Vessels owned by joint venture companies. See note 14.

Assets under construction at 31st December 2008 comprised ten Suezmax tankers, eight Aframax tankers, three Arctic Shuttle tankers, six Escort tugs and four Asphalt carriers scheduled for delivery between February 2009 and December 2010 at a total contracted cost to the group of U.S.$1,870 million. As at 31st December 2008 U.S.$877 million of the contracted costs had been paid.

Facilities of U.S.$312.7 million have been arranged with the group's bankers to finance the construction of the four Suezmax tankers and one Arctic Shuttle tankers. As of 31st December 2008 an amount of U.S.$126.1 million has been drawn down under the above facilities (see also note 22).

Included in expenditure in the period is an amount of U.S.$25.8 million (2007 – U.S.$23.5 million) representing interest capitalised during the period in accordance with the group's accounting policy concerning borrowing costs (note 2(p)).

9. Drydock Cost

	2008 U.S.$'000	2007 U.S.$'000
Cost		
At 1st January 2008	134,576	123,351
Expenditure in period	34,097	32,364
Transferred from tonnage under construction (note 8)	15,898	15,400
Eliminations	(27,532)	(22,657)
Disposals	-	(9,012)
Transferred to non-current assets held for sale (note 16)	(2,210)	(4,870)
At 31st December 2008	154,829	134,576
Amortisation		
At 1st January 2008	60,798	47,523
Charge for the period	41,104	41,774
Eliminations	(27,532)	(22,657)
Disposals	-	(4,273)
Transferred to non-current assets held for sale (note 16)	(1,334)	(1,569)
At 31st December 2008	73,036	60,798
Net book value		
At 31st December 2008	81,793	73,778

10. Other Fixed Assets

	Land and Buildings U.S.$'000	Miscellaneous U.S.$'000	Total U.S.$'000
Cost			
At 1st January 2007	63,994	44,082	108,076
Expenditure in period	-	6,114	6,114
Transferred from other fixed assets under construction (note 12)	2,820	3,952	6,772
Transferred to investment property (note 11)	(22,041)	-	(22,041)
Disposals	(154)	(1,396)	(1,550)
Exchange adjustment	138	260	398
At 31st December 2007	44,757	53,012	97,769
Expenditure in period	443	2,252	2,695
Transferred from investment property (note 11)	1,216	-	1,216
Transferred to investment property (note 11)	(1,459)	(150)	(1,609)
Transferred from other fixed assets under construction (note 12)	4,209	3,068	7,277
Disposals	(2,381)	(4,348)	(6,729)
Exchange adjustment	172	(6,355)	(6,183)
At 31st December 2008	46,957	47,479	94,436
Depreciation			
At 1st January 2007	40,306	30,987	71,293
Charge for the period	1,374	3,873	5,247
Transferred to investment property (note 11)	(18,667)	-	(18,667)
Disposals	(125)	(1,110)	(1,235)
Exchange adjustment	-	97	97
At 31st December 2007	22,888	33,847	56,735

10. **Other Fixed Assets (Continued)**

	Land and Buildings U.S.$'000	Miscellaneous U.S.$'000	Total U.S.$'000
Depreciation			
At 31st December 2007	22,888	33,847	56,735
Charge for the period	2,561	5,047	7,608
Transferred from investment property (note 11)	875	-	875
Transferred to investment property (note 11)	(1,445)	(50)	(1,495)
Disposals	(2,377)	(4,144)	(6,521)
Exchange adjustment	190	(5,446)	(5,256)
At 31st December 2008	22,692	29,254	51,946
Net book value			
At 31st December 2008	24,265	18,225	42,490
At 31st December 2007	21,869	19,165	41,034

Buildings comprise offices in Moscow, St. Petersburg, Novorossyisk and Limassol.

Included in miscellaneous other fixed assets is an amount of U.S.$1.395 million (2007 – U.S.$0.926 million) relating to construction work and furnishing made to leasehold premises in St. Petersburg, which is expected to be completed by the beginning of 2011 (see also note 36).

11. **Investment Property**

	2008 U.S.$'000	2007 U.S.$'000
Cost		
At 1st January 2008	22,041	-
Transferred from other fixed assets (note 10)	1,609	22,041
Transferred to other fixed assets (note 10)	(1,216)	-
Expenditure in period	20	-
At 31st December 2008	22,454	22,041
Depreciation		
At 1st January 2008	13,604	-
Transferred from other fixed assets (note 10)	1,495	18,667
Transferred to other fixed assets (note 10)	(875)	-
Charge for the period	949	79
Reversal of impairment	-	(5,142)
At 31st December 2008	15,173	13,604
Net book value		
At 31st December 2008	7,281	8,437
Rental income	3,662	2,506
Direct operating expenses	2,404	1,940

Investment property comprises buildings in Moscow and Novorossyisk with a market value as at 31st December 2008 of U.S.$44 million. The land on which the Moscow building is built is leased for a period of 49 years from August 1994.

12. **Other Fixed Assets Under Construction**

	2008 U.S.$'000	2007 U.S.$'000
At 1st January 2008	2,295	1,085
Expenditure in period	7,986	8,363
Transferred to other fixed assets (note 10)	(7,277)	(6,772)
Disposals	-	(381)
At 31st December 2008	3,004	2,295

13. **Investments**

	2008 U.S.$'000	2007 U.S.$'000
Investments in associates	6,485	3,688
Other investments	2,317	1,808
Non-current asset investments	8,802	5,496
Current asset investments	7,503	3,016
	16,305	8,512

Current asset investments comprised:

	2008 U.S.$'000	2007 U.S.$'000
Short-term equity investments available for sale at fair value	1,057	2,645
Short-term bank deposits held to maturity	6,446	-
Russian State Bonds	-	371
	7,503	3,016

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.

Investments in associates are analysed as follows:

	2008 U.S.$'000	2007 U.S.$'000
At 1st January 2008	3,688	1,153
Share of gains / (losses) in associates	2,009	(1,354)
Dividends receivable	(136)	-
Investments / acquisitions during the period	1,056	3,839
Funded losses in associates	-	(9)
Currency retranslation difference	(132)	59
At 31st December 2008	6,485	3,688

On 9th April 2007 the group acquired 49% of the ordinary share capital of Closed Joint Stock Company Rosnefteflot (see also note 38). In addition during the period the group acquired 20% of the ordinary share capital of Chart Pilot LLC. At 31st December 2008 the group had participating interests in the following active associates:

Name	Holding	Country of Incorporation	Principal Activity
JSC Rosnefteflot	49%	Russia	Ship Management and port fleet operator
JSC Port Prigorodnoye	50%	Russia	Port operations and port coordination activities
SCF DFDS Lines LLC	50%	Russia	Liner service
Chart Pilot LLC	20%	Russia	Production and distribution of navigation equipment

13. **Investments (Continued)**

Summarised financial information in respect of the group's associates is set out below:

	2008 U.S.$'000	2007 U.S.$'000
Total assets	30,646	23,463
Total liabilities	(21,864)	(19,518)
Net assets	8,782	3,945
Group's share of associates' net assets	3,372	1,147
Revenues	26,783	21,408
Gain / (loss) for the period	3,936	(5,091)
Group's share of associates' gains / (losses) for the period	2,009	(1,354)

14. **Joint Ventures**

The group has interests in the following active joint ventures:

Name of Joint Venture	% Holding
LNG East-West Shipping Company (Singapore) Pte Limited	37.5%
LNG North-South Shipping Company (Singapore) Pte Limited	50%
NYK-SCF LNG Shipping No.1 Limited	40%
NYK-SCF LNG Shipping No.2 Limited	40%

In prior years the group, through its joint ventures entered into shipbuilding contracts for the construction of two 145,700 CBM and two 145,000 CBM LNG carriers at a total contracted cost of U.S.$675 million. The two 145,000 CBM LNG carriers were delivered on 31st October 2007 and on 4th January 2008 while the two 145,700 CBM LNG carriers were delivered on 15th October 2008 and 15th December 2008.

The following amounts are included in the group's financial statements as a result of proportionate consolidation:

	2008 U.S.$'000	2007 U.S.$'000
Balance Sheet		
Non-current assets	299,719	221,422
Current assets	16,816	6,169
Non-current liabilities	286,008	179,911
Current liabilities	21,187	8,689
Income Statement		
Income	18,364	1,544
Expenses	17,845	1,604

The joint venture companies entered into four time charter agreements which expire between sixteen and twenty years with various extension options with aggregate time charter hire receivable as at the period end over the remaining firm charter periods amounting to U.S.$1.59 billion. Under two of the time charter agreements the charterers have the option to purchase the vessels in years five, ten, fifteen or twenty of the charters at amounts for each vessel ranging from U.S.$176.4 million in the fifth year to U.S.$35 million in the twentieth year.

On 8th December 2005 NYK-SCF LNG Shipping No.1 Limited and NYK-SCF LNG Shipping No.2 Limited entered into two credit agreements with group bankers totalling U.S.$320 million to provide finance for the construction of two 145,000 CBM LNG carriers. As of 31st December 2008 both facilities had been fully drawdown (see also note 22).

14. **Joint Ventures (Continued)**

In addition NYK-SCF LNG Shipping No.1 Limited and NYK-SCF LNG Shipping No.2 Limited entered into two interest rate swap agreements to hedge the future cash outflows of interest payable on the above mentioned credit agreements against LIBOR rate fluctuations, with an aggregate notional amount of U.S.$310.86 million amortising in accordance with the interest rate swap amortisation schedules. As of 31st December 2008 the aggregate notional amount of the swaps was U.S.$302.73 million (2007 – U.S.$310.86 million). These agreements mature on 31st October 2019 and 4th January 2020, respectively. The interest rates have been fixed between 4.7275% and 5.066% compared to U.S.$ three month LIBOR.

On 29th September 2006 LNG East-West Shipping Company (Singapore) Pte Limited and LNG North-South Shipping Company (Singapore) Pte Limited entered into two credit agreements with group bankers totalling U.S.$320 million to provide finance for the construction of the two 145,700 CBM LNG carriers. As of 31st December 2008 an amount of U.S.$301.48 million (2007 – U.S.$124.6 million) has been drawn dawn under the above facilities (see also note 22).

In addition LNG East-West Shipping Company (Singapore) Pte Limited and LNG North-South Shipping Company (Singapore) Pte Limited entered into two interest rate swap agreements to hedge the future cash outflows of interest payable on the above mentioned credit agreements against LIBOR rate fluctuations, with an aggregate notional amount of U.S.$287 million amortising in accordance with the interest rate swaps amortisation schedules. As of 31st December 2008 the aggregate notional amount of the swaps was U.S.$280 million (2007 – U.S.$99.52 million). These agreements mature on 7th December 2020 and 15th December 2020, respectively. The interest rates have been fixed between 4.97% and 5.42% compared to U.S.$ LIBOR, varying from one to three months.

The group has severally guaranteed to the hedging bank the performance of all the obligations and liabilities under the swap agreements limited to its percentage holding of Fiona Trust and Holding Corporation ("Fiona"), a group company, in the equity share capital of the four companies.

Fiona has guaranteed its share of obligations and responsibilities arising under the shipbuilding contracts, time charter agreements and credit agreements referred to above.

15. **Intangible Assets**

	2008 U.S.$'000	2007 U.S.$'000
(a) Goodwill	3,074	9,006
(b) Fair value of time charter agreements acquired	25,589	30,592
	28,663	39,598

(a) Goodwill

	2008 U.S.$'000	2007 U.S.$'000
Cost		
At 1st January 2008 and 31st December 2008	9,006	9,006
Impairment		
At 1st January 2008	-	-
Impairment loss recognised in period	5,932	-
At 31st December 2008	5,932	-
Carrying amount		
At 31st December 2008	3,074	9,006

Goodwill has arisen on the acquisition of Marpetrol on 2nd August 2006 and represents the excess of the cost of acquisition paid by the group over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of Marpetrol recognised at the date of acquisition. Goodwill has been allocated to the operations of each vessel owned by the company (cash-generating unit) based on their fair market values on the date of its acquisition.

15. **Intangible Assets (Continued)**

(a) Goodwill (continued)

The directors have assessed goodwill for impairment at the balance sheet date together with the carrying amount of these vessels compared to market values, as explained in note 7, and concluded that goodwill allocated to certain vessels had been impaired. Consequently an impairment loss has been recognised as at the period end. Due to the insignificance of goodwill at 31st December 2008 detailed value in use calculations have not been disclosed in the financial statements.

(b) Time Charters Acquired

During 2006 the group acquired two 70,000 CBM LNG carriers, the "SCF Polar" and the "SCF Arctic" together with the time charters attached to each vessel. The movements in the fair values of the time charter agreements are presented as follows:

	2008 U.S.$'000	2007 U.S.$'000
At 1st January 2008	30,592	35,137
Effective interest for the period	3,084	3,542
Amortisation for the period	(8,087)	(8,087)
At 31st December 2008	25,589	30,592

The time charter agreements expire on 31st December 2012 with aggregate charter hire receivable as at 31st December 2008 of U.S.$117.11 million (2007 – U.S.$144.48 million).

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

	2008 U.S.$'000	2007 U.S.$'000
At 1st January 2008	21,458	36,197
Adjustment to brought forward balance	25	-
Transferred from fleet (note 7)	7,470	18,157
Transferred from drydock cost (note 9)	876	3,301
Impairment provision	(5,857)	-
Disposals	(20,713)	(36,197)
At 31st December 2008	3,259	21,458
Current insured value	15,000	36,500
Total deadweight tonnage (dwt)	5,800	80,160

During the period the directors made a decision to dispose of one Product tanker, the m/v "Akademik Vereshchangin" and one Bulk carrier the m/v "Sergey Lemshey".

In addition, in 2007 the directors made a decision to dispose of two Product tankers, one Bulk carrier, and the group's Passenger vessel, the m/v "Maxim Gorkiy". All vessels except for the m/v "Maxim Gorkiy" were sold and delivered to their new owners.

On 8th August 2008 the group agreed to sell the Passenger vessel to a third party for a purchase consideration which exceeded the carrying value of the vessel, however the transaction was terminated prior to the year end. The vessel was subsequently sold to a new buyer on 9th January 2009 and was delivered to her new owners on 26th January 2009. Accordingly, the carrying value of the vessel has been written down to its net selling price and an impairment provision has been recognised in the income statement.

17. **Inventories**

	2008 U.S.$'000	2007 U.S.$'000
Bunkers	15,823	28,162
Lubricants	13,720	12,261
Victualling and slopchest	1,310	1,167
Other	2,415	2,766
	33,268	44,356

18. **Trade and Other Receivables**

	2008 U.S.$'000	2007 U.S.$'000
Amounts due from charterers	78,802	69,295
Allowance for doubtful debts	(2,876)	(2,709)
	75,926	66,586
Casualty and other claims	35,389	39,485
Agents' balances	6,193	6,394
Other debtors	50,755	40,466
Prepayments	9,124	12,039
Deferred finance charges	-	440
Voyage suspense accounts	9,594	6,241
Accrued income	6,735	7,780
	193,716	179,431

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 and contracts of affreightment 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.$44.366 million (2007 – U.S.$48.919 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.$31.56 million (2007 – U.S.$17.667 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:

	2008 U.S.$'000	2007 U.S.$'000
Up to one month	20,570	12,773
One to two months	4,979	1,537
Two to three months	3,075	413
Three to four months	335	440
More than four months	2,601	2,504
	31,560	17,667

Movement in the allowance for doubtful debts

	2008 U.S.$'000	2007 U.S.$'000
Balance at the beginning of the period	2,709	3,926
Amounts written off during the period	(593)	(1,842)
Amounts recovered during the period and recognised in the income statement	(96)	(179)
Increase in allowance recognised in the income statement	880	755
Exchange adjustments	(24)	49
	2,876	2,709

18. **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 2008 amounts due from charterers included one charterer (2007 – one) with a balance of freight and hire due representing 12% (2007 – 13%) 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.

Included within casualty and other claims is an amount of U.S.$4.47 million relating to collision damage to the m/v “SCF Tobolsk" in the Hormuz strait on 2nd October 2008, an amount of U.S.$2.39 million (2007 – U.S.$19.7 million) relating to the grounding of the m/v “SCF Tomsk" off the coast of the Dominican Republic on 29th October 2007 and an amount of U.S.$15.7 million (2007 – U.S.$9.9 million) representing legal costs connected with the claims described in note 37. In the opinion of the directors the above balances will be recovered in the foreseeable future.

Other debtors as at 31st December 2008 includes an amount of U.S.$12.5 million (2007 – U.S.$13.9 million) held as security by the American Courts in relation to the arrest of one of the group’s vessels in the United States, which is also connected with the claim referred to in note 37.

19. **Issued Capital**

	2008 U.S.$’000	2007 U.S.$’000
Authorised, issued and fully paid 1,966,697,210 shares of 1 Rouble each	405,012	405,012

	Number of shares	Share capital U.S.$’000	Share premium U.S.$’000
Balance at 1st January 2007	1,364,538,517	380,407	-
Issue of shares in exchange for shares in JSC Novoship (note 1)	602,158,693	24,605	818,845
Balance at 31st December 2007 and 2008	1,966,697,210	405,012	818,845

20. **Group Reconstruction Reserve**

	2008 U.S.$’000	2007 U.S.$’000
At 1st January 2008	(834,490)	-
Surplus arising on group reconstruction in 2007	-	8,960
Shares issued by JSC Sovcomflot in exchange for shares in JSC Novoship (note 19)	-	(843,450)
At 31st December 2008	(834,490)	(834,490)

21. **Dividends**

Dividends of Roubles 0.49 per share totalling Roubles 959.779 million (2007 – Roubles 0.19 per share totalling 256.123 million), equivalent to U.S.$40.916 million (2007 – U.S.$9.921 million) were declared on 30th June 2008 and paid on 9th July 2008, representing 92% of the company’s undistributed profits for the preceding year, as computed under Russian accounting regulations.

As the Federal Agency transferred its shareholding in JSC Novoship to the company on 5th December 2007, and these financial statements have been prepared on a pooling of interests basis, dividends declared and paid in 2007, as disclosed in these financial statements reflect amounts paid by Sovcomflot and Novoship.

In 2007 dividends of Roubles 0.9 per share totalling Roubles 341.547 million, equivalent to U.S.$13.639 million on both ordinary and preference shares of Novoship were declared on 9th June 2007 and paid from the undistributed profits for the preceding years, as computed under Russian accounting regulations.

22. Secured Loans

The balances of the loans at 31st December 2008 are summarised as follows:

	2008 U.S.$'000	2007 U.S.$'000
Repayable:		
- within twelve months of the balance sheet date	207,065	151,871
- between one to two years	191,467	198,036
- between two to three years	154,468	149,569
- between three to four years	155,732	143,969
- between four to five years	605,335	145,095
- after more than five years	980,319	1,466,313
	2,294,386	2,254,853
Less current portion	(207,065)	(151,871)
Long-term balance	2,087,321	2,102,982

The secured loans are repayable in quarterly instalments with final payments due between November 2009 and March 2021 at interest based on US LIBOR plus margins ranging between 0.30% and 1.1875% with a weighted average margin as at the end of the period of 0.79%, except for a loan of U.S.$100.24 million (2007 – U.S.$111.5 million) for which the interest rate had been fixed at 4.75% plus margins of 0.50% or 0.75% depending on the employment of the vessels mortgaged, until July 2018.

The group has the option to repay in whole or any part of the loans on the last date of each monthly, quarterly or semi-annual interest period or such longer interest period as the lenders may agree.

As security for the loans, the lenders have first preferred mortgages on group vessels with an aggregate book value at 31st December 2008 of U.S.$3,783 million (2007 – U.S.$3,333 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in note 8 and pledges of shares in certain of the vessel owning companies.

Bank balances include approximately U.S.$49.418 million (2007 – U.S.$25.925 million) secured under loan agreements or other facilities provided by the group's bankers including an amount of U.S.$19.6 million (2007 – U.S.$9 million) held as counter security for the claims filed in London referred to in note 37.

23. Finance Lease Liabilities

	2008 U.S.$'000	2007 U.S.$'000
Repayable		
- within twelve months of the balance sheet date	12,251	1,300
- between one to five years inclusive	110,444	6,060
- after more than five years	-	11,288
	122,695	18,648
Less current portion	(12,251)	(1,300)
Long-term balance	110,444	17,348

The group, through the acquisition of Marpetrol in 2006, acquired the 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.

23. **Finance Lease Liabilities (Continued)**

In addition, during the period the group entered into time charter agreements for the chartering in of two Ice Product tankers expiring in July 2010 and February 2011. The charter hires are payable monthly in advance at daily rates of U.S.$25,000. The group has the intention to exercise its options to acquire the vessels on expiry of the time charter agreements at predetermined prices. Consequently, the vessels have been recognised as fleet with a corresponding finance lease liability. The effective interest rates implicit in the finance leases are 6.46% and 8.90% per annum.

24. **Derivative Financial Instruments**

	2008 U.S.$'000	2007 U.S.$'000
(a) Hedging instruments	165,758	42,870
(b) Classified at fair value through profit or loss	44,759	7,902
	210,517	50,772

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

	2008 U.S.$'000	2007 U.S.$'000
At 1st January 2008	42,870	14,675
Released during the period and debited / (credited) to equity	5,107	(619)
Provided during the period and debited to equity	112,363	25,950
Provided for during the period and debited to the income statement	5,418	1,052
Terminated during the period	-	1,812
At 31st December 2008	165,758	42,870

The group entered into interest rate swap agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations. In addition to the interest rate swap agreements referred to in note 14, as of 31st December 2008 the group had the following interest rate swap agreements amortising in accordance with the initial repayment schedules of the relevant loans at fixed rates compared to U.S.$ three month LIBOR as follows:

Type of instrument	Notional amount 2008 U.S.$'000	Notional amount 2007 U.S.$'000	Fixed interest rate	Expiry date
Swap	-	8,700	2.4300%	Expired 2008
Swap	-	5,120	2.8500%	Expired 2008
Swap	-	6,391	2.9700%	Expired 2008
Swap	-	350	2.5400%	Expired 2008
Swap	35,640	37,620	4.4700%	12th December 2016
Swap	393,943	293,517	5.7575%	1st March 2021
Swap	39,750	42,750	4.0350%	30th November 2010
Swap	26,500	28,500	3.6500%	30th November 2010
Swap*	39,750	-	2.4000%	29th November 2013

* The bank has the option to terminate the swap on each date coinciding with the quarterly repayment instalments of the loan.

Due to the cancellation of a shipbuilding contract during 2007, part of an existing interest rate swap agreement was no longer considered to be effective for hedge accounting purposes. An amount of U.S.$2.5 million was transferred from equity and debited to the income statement. In addition, on 15th May 2007 the group terminated two interest rate swap agreements previously considered as effective realising a gain of U.S.$1.8 million in 2007.

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

The net loss in hedging instruments charged to the income statement is analysed as follows:

	2008 U.S.$'000	2007 U.S.$'000
Movement in ineffective hedges	5,418	1,052
Transferred from equity on termination	-	(1,812)
Transferred from equity on becoming ineffective	-	2,574
	5,418	1,814

(b) Classified at fair value through profit or loss

	2008 U.S.$'000	2007 U.S.$'000
At 1st January 2008	7,902	3,155
Premiums received during the period	3,187	760
Fair value of instruments at inception	8,775	-
Provided for during the period and debited to the income statement	38,337	4,654
Premiums released on instruments terminated during the period and credited to the income statement	(1,480)	(222)
Terminated during the period	(11,962)	(445)
At 31st December 2008	44,759	7,902

The fair value of the derivative financial instruments held for trading through profit or loss is analysed as follows:

	2008 U.S.$'000	2007 U.S.$'000
Interest rate	44,759	7,970
Currency rate	-	(68)
At 31st December 2008	44,759	7,902

In addition to the interest rate swaps designated as hedging instruments, as at 31st December 2008 the group had the following interest rate financial instruments:

Type of instrument	Notional amount 2008 U.S.$'000	Notional amount 2007 U.S.$'000	Interest rate	Expiry date
Swaption				
Swaption	50,000	-	4.59%	5th March 2012
Swaption	50,000	-	4.59%	6th March 2014
Swaption				
Swaption	55,000	-	4.40%	22nd May 2012
Swaption	55,000	-	4.40%	22nd May 2014
Swaption				
Swaption	50,000	-	4.17%	22nd May 2012
Swaption	50,000	-	4.17%	22nd May 2014
Collar, sold Cap and knock in				
Swaption	50,000	-	3.50%	18th March 2013
Knock in floor	50,000	-	4.50%	17th March 2014
Sold Cap	50,000	-	5.00%	18th March 2013
Collar and Knock out				
Knock out Cap	50,000	-	5.90%/7.00%	1st July 2011
Knock in floor	50,000	-	4.48%	1st January 2014
Callable				
IRS	50,000	-	3.80%	22nd October 2010
Swaption	50,000	-	3.80%	22nd October 2013

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

Type of instrument	Notional amount 2008 U.S.$'000	Notional amount 2007 U.S.$'000	Interest rate	Expiry date
Callable				
IRS	50,000	-	2.89%	29th November 2010
Swaption	50,000	-	2.89%	29th November 2010
Swaption				
Swaption	50,000	-	4.00%	28th November 2011
Swaption	50,000	-	4.00%	27th November 2012
Swaption	50,000	-	4.00%	27th November 2013
Swaption	50,000	-	4.00%	28th November 2014
Callable				
IRS	50,000	-	2.87%	16th January 2009
Swaption	50,000	-	2.87%	18th January 2011
Collar and knock in / out				
Knock in floor	50,000	-	3.62%	25th February 2013
Knock out Cap	50,000	-	3.62%	25th February 2013
Swaption	-	50,000	4.60%	Terminated in 2008
Swaption	-	50,000	4.65%	Terminated in 2008
Swaption	-	50,000	4.40%	Terminated in 2008
Collar and sold Cap	-	50,000	4.50%/5.90% and 6.78%	Terminated in 2008
Knock in floor	-	50,000	4.10%	Terminated in 2008
IRS	-	50,000	4.30%	Terminated in 2008
Swaption	-	50,000	4.30%	Terminated in 2008
IRS	-	50,000	3.65%	Terminated in 2008
Swaption	-	50,000	3.65%	Terminated in 2008

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 2008 would increase / decrease by approximately U.S.$28.591 million and U.S.$9.310 million respectively due to the change in the fair value of the derivative financial instruments held for trading through profit or loss.

The group also uses derivative financial instruments to partly manage its exposure to changes in foreign exchange rates. At the balance sheet date these derivatives were not designated as hedging instruments and were recorded as trading through profit or loss.

The following exchange rate derivatives were held by the group at 31st December 2008:

Type of instrument	Notional amount	Strike/Barrier	Expiry date
Forward	€50,000/weekly	1.350/1.405	Expired in 2008
Forward	£50,000/monthly	1.992/1.900	Expired in 2008
Option	€100,000/monthly	1.378/1.353	Expired in 2008

The group also uses derivative financial instruments to offset the price risk associated with bunkers. As at 31st December 2008 and 2007 the group did not hold any bunker price derivative financial instruments.

The net loss in financial instruments classified at fair value through profit or loss written off to the income statement is analysed as follows:

	2008 U.S.$'000	2007 U.S.$'000
Movement in interest rate instruments	38,269	5,499
Movement in bunker price instruments	68	(777)
Movement in currency rate instruments	-	(68)
Premiums released on termination	(1,480)	(222)
	36,857	4,432

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

Derivative financial instruments are classified in the balance sheet as follows:

	2008 U.S.$'000	2007 U.S.$'000
Non-current asset	-	(178)
Current asset	-	(387)
Non-current liability	137,688	37,569
Current liability	72,829	13,768
	210,517	50,772

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

25. **Retirement Benefit Obligations**

	2008 U.S.$'000	2007 U.S.$'000
Post retirement pension benefit plans	1,587	2,066
Long-term service retirement benefit plans	6,218	2,278
At 31 December 2008	7,805	4,344

A subsidiary of the group operates two defined benefit retirement plans, a post retirement pension benefit plan and a long-term service retirement benefit plan for its seafarers and shore based staff.

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 subsidiary 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 are as follows:

	Post retirement pension benefit plans		Long-term service retirement benefit plans	
	2008 U.S.$'000	2007 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Present value of obligation at 1st January	2,066	1,925	2,278	-
Current service cost	-	-	122	-
Interest cost	134	195	148	-
Past service costs	-	-	4,322	2,278
Benefits paid	(780)	(817)	(416)	-
Exchange rate differences	(290)	120	(414)	-
Actuarial loss on obligation	457	643	178	-
	1,587	2,066	6,218	2,278

The present value of the obligation under the post retirement pension benefit plans at 1 January 2007 represents an actuarial loss at inception of the scheme, recorded in 2006.

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

	Post retirement pension benefit plans		Long-term service retirement benefit plans	
	2008 U.S.$'000	2007 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Current service cost	-	-	122	-
Interest cost	134	195	148	-
Past service costs	-	-	278	2,278
Actuarial loss recognised in period	457	643	178	-
	591	838	726	2,278

25. **Retirement Benefit Obligations (Continued)**

The principal actuarial assumptions used in measurement of the defined benefit obligations at the balance sheet date are as follows:

	2008	2007
Discount rate for cash flows in Russian Roubles	9.95%	6.65%
Discount rate for cash flows in US Dollars	4.50%	-
Future salary increases in Russian Roubles	10.00%	7.00%
Future salary increases in US Dollars	2.00%	-
Future pension increases	3.00%	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

26. **Provision for Onerous Contracts**

	2008 U.S.$'000	2007 U.S.$'000
At 1st January 2008	-	-
Provided during the period	58,500	-
Allocated to payments made for tonnage under construction (note 8)	(17,813)	-
At 31st December 2008	40,687	-
Less current portion	(7,387)	-
Long-term balance	33,300	-

As at 31st December 2008 the directors carried out an impairment review of the carrying amounts of tonnage under construction and contracts for the construction of vessels and concluded that the recoverable amount was their market value provided by an independent broker. The review led to a recognition of impairment provisions in respect of four ice class Aframax tanker contracts and two Asphalt carrier contracts of U.S.$58.5 million, which was first allocated against payments already made under these contracts. The remaining balance has been classified as a provision at 31st December 2008.

27. **Trade and Other Payables**

	2008 U.S.$'000	2007 U.S.$'000
Trade creditors	56,602	51,653
Other creditors and accruals	57,203	79,712
Accrued interest	10,614	11,541
Deferred income	46,684	38,967
	171,103	181,873

28. **Income Taxes**

	2008 U.S.$'000	2007 U.S.$'000
Russian Federation profits tax	23,920	26,724
Overseas taxes		
- Income tax	512	407
- Withholding tax on interest receivable	-	95
Adjustments recognised in the current year in relation to the income tax of prior years (Russian Federation profit tax)	(2,272)	(326)
Income tax expense	22,160	26,900
Deferred tax	(16,847)	(4,415)
Total tax expense	5,313	22,485

Under the laws of the countries of incorporation and / or vessels' registration, a limited number of vessel owning and operating subsidiaries are subject to tax on international shipping income.

28. **Income Taxes (Continued)**

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 International Register of Vessels and in the Special Registry of Ships and Maritime Companies of the Canary Islands (Spain) (the "SRSMC").

Russian Federation profits tax is payable in Roubles at an effective rate of 24% (2007 – 24%) on the profits arising on Russian operations, as adjusted for Russian fiscal purposes. Taxes are also payable on the results of the group's overseas management, agency and broking subsidiaries. The liability to taxation of the other subsidiaries is insignificant. Effective 1st January 2009, the effective rate of Russian Federation profits tax is 20%.

The Russian Federation profits tax is computed as follows:

	2008 U.S.$'000	2007 U.S.$'000
Profit before income taxes	411,553	493,326
Profits taxable in other tax jurisdictions	(407,661)	(420,782)
Adjustment to reclassify in accordance with Russian accounting standards	(18,205)	(1,134)
Intra-group dividends	75,901	50,000
Russian accounting profit before income taxes	61,588	121,410
Income tax using Russian Federation income tax rate of 24%	14,781	29,138
Tax effect of tax allowable income and tax disallowable expenses	21,438	4,558
Difference in tax rate of dividends received	(12,299)	(6,972)
Adjustments recognised in the current year in relation to the income tax of prior years (Russian Federation profit tax)	(2,272)	(326)
Overseas taxes	512	502
Income tax expense	22,160	26,900

Deferred Tax

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

	Opening balance U.S.$'000	Released / (charged) to income U.S.$'000	Exchange differences U.S.$'000	Closing balance U.S.$'000
At 31st December 2008				
Deferred tax assets	2,041	(2,752)	2,313	1,602
Deferred tax liabilities	(33,537)	19,599	(1,262)	(15,200)
	(31,496)	16,847	1,051	(13,598)
At 31st December 2007				
Deferred tax assets	5,928	(4,312)	425	2,041
Deferred tax liabilities	(41,090)	8,727	(1,174)	(33,537)
	(35,162)	4,415	(749)	(31,496)

28. **Taxes (Continued)**

Deferred tax assets / (liabilities) arise from the following:

Year 2008

	Opening balance U.S.$'000	Released / (charged) to income U.S.$'000	Exchange differences U.S.$'000	Closing balance U.S.$'000
Fleet	(20,878)	14,602	(4,034)	(10,310)
Drydock	(3,513)	(1,280)	4,300	(493)
Other fixed assets	-	(907)	-	(907)
Finance leases	1,178	(588)	(38)	552
Bank loans	(5,054)	3,354	120	(1,580)
Hedging instruments	(104)	78	634	608
Pensions	490	(68)	(24)	398
Other	(737)	1,134	(43)	354
Gains on disposal of assets reinvested	(2,878)	522	136	(2,220)
	(31,496)	16,847	1,051	(13,598)

On 7th February 2008 nine out of twelve vessels owned by Marpetrol and its subsidiaries were admitted into the Spanish tonnage tax regime for a period of ten years, effective 1st January 2008. It is the intention of management to extend the registration under the regime on expiration. Consequently, net deferred tax liabilities of approximately U.S.$9.2 million have been released to the income statement in 2008.

Year 2007

	Opening balance U.S.$'000	Released / (charged) to income U.S.$'000	Exchange differences U.S.$'000	Closing balance U.S.$'000
Fleet	(28,496)	7,612	6	(20,878)
Drydock	(3,357)	82	(238)	(3,513)
Finance leases	1,882	(866)	162	1,178
Bank loans	(4,592)	100	(562)	(5,054)
Hedging instruments	(266)	182	(20)	(104)
Pensions	504	(68)	54	490
Provisions	139	(149)	10	-
Other	(655)	(68)	(14)	(737)
Gains on disposal of assets reinvested	(3,084)	532	(326)	(2,878)
Unused tax losses	2,763	(2,942)	179	-
	(35,162)	4,415	(749)	(31,496)

29. **General and Administrative Expenses**

	2008 U.S.$'000	2007 U.S.$'000
Administration expenses	88,083	72,509
Project related expenses	1,385	640
Non-income based taxes	12,416	9,262
Bank charges and fees	3,589	2,440
	105,473	84,851

29. General and Administrative Expenses (Continued)

Administration expenses are analysed as follows:

	2008 U.S.$'000	2007 U.S.$'000
Head office costs	24,482	14,701
Russian offices costs	18,325	13,098
Overseas offices costs and other general expenses	40,890	37,772
Legal and professional fees	2,707	5,667
Audit and accountancy fees	1,679	1,271
	88,083	72,509

Non-income based taxes are analysed as follows:

	2008 U.S.$'000	2007 U.S.$'000
Russian Federation taxes		
- Irrecoverable value added tax	6,297	2,851
- Payroll taxes	2,186	2,316
- Property tax	1,920	1,900
Overseas taxes		
- Payroll taxes	1,387	1,562
- Tonnage tax	626	633
Non-income based taxes	12,416	9,262

30. Net Other Operating Income

	2008 U.S.$'000	2007 U.S.$'000
Gross revenues	27,420	23,916
Cost of sales		
- Wages and salaries	(9,554)	(7,357)
- Social security costs	(2,333)	(1,797)
- Other cost of sales	(8,101)	(5,496)
Administrative expenses	(4,810)	(5,753)
Other operating income	12,428	8,370
Other operating expenses	(2,001)	(956)
Net other operating income	13,049	10,927

31. Employee Costs

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

	2008 U.S.$'000	2007 U.S.$'000
Seafarers		
- Wages and salaries	123,948	97,424
- Defined contribution pension plans	840	706
- Long-term service defined benefit plans	100	1,171
- Social security costs	2,540	3,068
	127,428	102,369
Shore based staff		
- Wages and salaries	73,490	57,433
- Defined contribution pension plans	628	296
- Long-term service defined benefit plans	626	1,107
- Social security costs	6,733	5,788
	81,477	64,624
Total employee costs	208,905	166,993

31. **Employee Costs (Continued)**

The number of employees employed by the company, its subsidiaries and joint ventures at 31st December 2008 was 5,079 (2007 – 5,207) comprising ships' staff of 2,847 (2007 – 2,994) and shore-based staff of 2,232 (2007 – 2,213).

Compensation of key management personnel

The remuneration of directors and other members of key management, including compensation of key management personnel of Novoship, was as follows:

	2008 U.S.$'000	2007 U.S.$'000
Short-term benefits	17,026	8,483
Post employment benefits	81	40
Long-term service benefits	79	62
Termination benefits	-	358
	17,186	8,943

Short-term benefits for 2008 include accruals for bonuses relating to the period ended 31st December 2008 (2007 – Nil)

32. **Acquisition of Associate**

On 9th April 2007 the group acquired 49% of the ordinary share capital of Closed Joint Stock Company Rosnefteflot, incorporated under the Laws of the Russian Federation. The fair values of the 49% interest in the assets and liabilities acquired were as follows:

	Book Value U.S.$'000	Fair value adjustment U.S.$'000	Fair value on acquisition U.S.$'000
Tangible fixed assets	7,029	626	7,655
Cash and cash equivalents	441	-	441
Inventories	86	-	86
Deferred tax	370	(147)	223
Taxation recoverable	503	-	503
Accounts receivable	1,782	(13)	1,769
Finance lease liabilities	(7,627)	-	(7,627)
Accounts payable	(1,048)	-	(1,048)
Taxation payable	(196)	-	(196)
	1,340	466	1,806
Goodwill on acquisition			1,894
Total purchase consideration satisfied by cash			3,700

33. **Significant Subsidiary Companies**

In addition to the joint ventures referred to in note 14, at 31st December 2008, the group had 110 single vessel owning and operating subsidiaries incorporated in Liberia, Malta, Cyprus, the Marshall Islands and the Bahamas.

The most significant subsidiaries of the group comprised:

Name	Country of Incorporation	Percentage Holding	Activity
JSC Novoship	Russia	56.26%	Shipowning and operating and ship management
Fiona Trust and Holding Corporation and its subsidiaries	Liberia	100%	Vessel owning and operation
Intrigue Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
Novoship Holdings Limited and its subsidiaries	Cyprus	100%	Vessel owning and operation
SCF Varandey LLC	Russia	100%	Ship operation
Sovcomflot Bulk Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
W.W. Marpetrol S.A and its subsidiaries	Spain	100%	Vessel owning and operation and ship management
Sovcomflot (UK) Ltd	U.K.	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
Unicom Management Services (Cyprus) Limited	Cyprus	100%	Ship management
Unicom Management Services (St. Petersburg) Ltd	Russia	100%	Ship management

34. 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 balance sheet position and high borrowings 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 and the net adjusted debt ratio. 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 7 ("total adjusted capital"). Net debt is calculated as the total of secured bank loans and finance lease liabilities, disclosed in notes 22 and 23 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 2008 the group's overall strategy remained unchanged from 2007. The debt to total equity ratio at 31st December 2008 and at 31st December 2007 and the total adjusted capital of the group were as follows:

	2008 U.S.$'000	2007 U.S.$'000
Secured bank loans (note 22)	2,294,386	2,254,853
Finance lease liabilities (note 23)	122,695	18,648
Less: cash and cash equivalents	(298,119)	(293,933)
Net debt	2,118,962	1,979,568
Total equity	2,816,963	2,722,490
Total capital	4,935,925	4,702,058
Net debt ratio	42.9%	42.1%
Total capital	4,935,925	4,702,058
Add: excess of market value of fleet over carrying value	1,892,265	2,832,221
Total adjusted capital	6,828,190	7,534,279
Net adjusted debt ratio	31.0%	26.3%

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

(b) Categories of financial instruments

	2008 U.S.$'000	2007 U.S.$'000
Financial assets		
Derivative instruments in designated hedge accounting relationships	-	565
Loans and receivables (including cash and cash equivalents)	495,273	483,057
Total financial assets	495,273	483,622
Non-financial assets	5,231,723	4,791,020
Total assets	5,726,996	5,274,642
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	165,758	43,435
Financial liabilities at fair value through profit or loss	44,759	7,902
Amortised cost	2,596,945	2,428,311
Total financial liabilities	2,807,462	2,479,648
Non-financial liabilities	102,571	72,504
Total liabilities	2,910,033	2,552,152
Total equity	2,816,963	2,722,490
Total equity and liabilities	5,726,996	5,274,642

The carrying amount of the financial assets and financial liabilities of the group approximate to their fair values.

(c) 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.

Market risk

Foreign 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 Sterling Pound. The group utilises its revenues in Euros and Russian Roubles and uses derivative financial instruments (see note 24) 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.

34. **Financial Risk Management (continued)**

Market risk (continued)

Foreign currency risk (continued)

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	
	2008 U.S.$'000	2007 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Euro (EUR)	11,481	29,056	34,470	29,992
Russian Roubles (RUR)	16,489	15,486	84,975	91,271
Sterling Pounds (GBP)	3,785	2,595	13,970	3,523
Others	1,476	1,062	1,846	1,333

Had the foreign exchange rate between the U.S. Dollar and the above currencies at 31st December increased by 10% (2007 – 5%) with all other variables held constant, the effect would be to decrease the monetary liabilities / assets as shown below.

	Liabilities		Assets	
	2008 U.S.$'000	2007 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Euro (EUR)	1,043	1,383	3,133	1,428
Russian Roubles (RUR)	1,499	737	7,725	4,346
Sterling Pounds (GBP)	344	124	1,270	168
Others	134	51	168	63

Had the foreign exchange rate between the U.S. Dollar and the above currencies at 31st December decreased by 10% (2007 – 5%) with all other variables held constant, the effect would be to increase the monetary liabilities / assets as shown below.

	Liabilities		Assets	
	2008 U.S.$'000	2007 U.S.$'000	2008 U.S.$'000	2007 U.S.$'000
Euro (EUR)	1,276	1,529	3,830	1,578
Russian Roubles (RUR)	1,832	815	9,442	4,804
Sterling Pounds (GBP)	421	137	1,552	185
Others	164	56	208	70

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.

Cash flow interest rate risk

The group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During 2008 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 24 of these financial statements.

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

Market risk (continued)

Cash flow interest rate risk (continued)

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 2008 was as follows:

	2008 U.S.$'000	2007 U.S.$'000
Total floating rate borrowings (gross of direct issue costs)	2,207,976	2,156,399
Notional amount of floating to fixed rate swaps	(779,674)	(590,986)
Net exposure to interest rate fluctuations	1,428,302	1,565,413
% of borrowing exposed to interest rate fluctuations	64.69%	72.59%

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 2008 would increase / decrease approximately by U.S.$13.92 million (2007 – increase / decrease by U.S.$13.37 million), excluding any interest capitalised. This is mainly attributable to the exposure of the group's floating rate borrowings not hedged; and
- hedging reserve and profit for the period would increase by approximately U.S.$53.4 million and U.S.$2.4 million / decrease by approximately U.S.$58 million and U.S.$2.7 million respectively (2007 – increase / decrease by U.S.$47 million and U.S$2.3 million respectively) due to the change in the fair value of interest rate swaps designated as hedging instruments.

The group's sensitivity to interest rate net exposure has decreased during the period mainly due to the increase of the notional principal amount of interest rate swaps used to hedge floating rate borrowings.

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 66.4% of the vessels' total trading days were on time charter (2007 – 67.87%) representing 46.95% (2007 – 57.78%) of freight and hire receivable. As at 31st December 2008, 65.35% of the vessels were on time charter (2007 – 67.20%).

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 18 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 three banks (2007 – four) representing 16.8%, 11.7% and 11.2% (2007 – 18.3%, 14.6%, 10.9% and 10.6%) of total deposits of U.S.$303 million (2007 – U.S.$292.6 million).

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.

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

Liquidity risk (continued)

Below is a table summarising additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

	Credit facilities U.S.$'000	Drawn down U.S.$'000	Available U.S.$'000
At 31st December 2008			
Secured bank term loans	452,678	(257,866)	194,812
Secured revolving credit facilities	1,073,012	(403,790)	669,222
	1,525,690	(661,656)	864,034
At 31st December 2007			
Secured bank term loans	2,612,983	(2,102,901)	510,082
Secured revolving credit facilities	1,100,898	(456,640)	644,258
	3,713,881	(2,559,541)	1,154,340

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
At 31st December 2008				
Trade and other payables	170,014	-	-	170,014
Minimum lease payments under finance leases	21,221	119,901	-	141,122
Secured bank loans	224,823	1,141,027	985,448	2,351,298
Interest payable on secured loans	77,207	339,819	217,508	634,534
	493,265	1,600,747	1,202,956	3,296,968
At 31st December 2007				
Trade and other payables	149,675	-	-	149,675
Minimum lease payments under finance leases	2,544	10,270	11,210	24,024
Secured bank loans	153,097	656,701	1,458,067	2,267,865
Interest payable on secured loans	138,694	484,337	326,892	949,923
	444,010	1,151,308	1,796,169	3,391,487

The payment of the group's contractual commitments under its newbuilding programme referred to in notes 8 and 14 is summarised as follows:

	Less than 1 year U.S.$'000	1 to 2 years U.S.$'000	2-3 years U.S.$'000	Total U.S.$'000
At 31st December 2008				
US Dollar contracts	598,050	349,954	-	948,004
Euro contracts (US$ equivalent)*	12,870	32,527	-	45,397
	610,920	382,481	-	993,401
At 31st December 2007				
US Dollar contracts	452,414	548,189	165,925	1,166,528
Euro contracts (US$ equivalent)*	6,123	9,255	-	15,378
	458,537	557,444	165,925	1,181,906

* The conversion of Euros to US Dollars is based on the exchange rate prevailing at the end of each financial reporting period.

35. Operating Lease Arrangements

The group has the following non-cancellable operating lease commitments in respect of vessels and office premises in London, Moscow and St. Petersburg:

	2008 U.S.$'000	2007 U.S.$'000
Within twelve months of the balance sheet date	17,530	17,829
Between one to five years	22,164	36,498
After more than five years	4,657	8,117
	44,351	62,444

36. Contingent Liabilities and Commitments

Contingent liabilities

Guarantees given by the group in connection with the joint ventures have been reported in note 14 of these financial statements.

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 the foreign legal entity may be required to pay income tax if it is a tax resident of such jurisdiction or if its activities constitute a permanent establishment in such a jurisdiction. Management believes that the group's shipping and holding companies incorporated in low-tax jurisdictions are not subject to taxes outside their countries of incorporation. However, the concept of permanent establishment and tax residency for legal entities introduced by domestic and international law is subject to interpretation. As a result, there is a risk that the taxation authorities of higher tax jurisdictions may attempt to subject the group's earnings to income taxes of a particular jurisdiction. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable legislation, official pronouncements and court decisions.

Commitments

On 16th December 2008 Novoship made a public offer to the holders of preference shares to buy back 50,112,050 preference shares of the company representing 10% of the total share capital of the company at a price of Roubles 21.66 per share. In accordance with the terms of the offer the preference shareholders had until 16th February 2009 to sell them back to the company. Based on the application received, the company plans to repurchase all 50,112,050 shares preference shares declared for buy-back. As a result the group, as at the balance sheet date, recognised a liability for the redemption value of U.S.$36.945 million (see also note 39).

The group enters into short to medium-term time charters and voyage charters during its normal course of business. In addition to the time charter agreements referred to in notes 14 and 15(b), the group has entered into long-term time charters with aggregate hires receivable as at 31st December 2008 of U.S.$2.08 billion, expiring after more than five years which include various charterers' purchase, termination and extension options.

In 2005 Sovcomflot entered into a long-term non-cancellable operating lease agreement in respect of a preserved office building in St. Petersburg, Russian Federation. The lease term is for forty nine years expiring on 27th March 2055 at a nominal rent. Under the agreement, Sovcomflot has an obligation to renovate the building. The cost of construction work and furnishing is expected to be approximately U.S.$12 million of which U.S.$2.857 million (2007 – U.S.$1.404 million) had been contracted for by the period end. As at 31st December 2008 U.S.$1.249 million (2007 – U.S.$0.735 million) of the contracted costs had been paid for. Sovcomflot has the option to acquire the building at any time should enacted legislation in respect of preserved buildings change at a price to be agreed upon at the time. The construction work and furnishing is expected to be completed by the beginning of 2011.

In addition to the guarantees obtained by the group from the shareholders of the State controlled entity referred to in note 38(iii), the group obtained guarantees from the shareholders of the charterers in respect of the performance of the obligations of the charterers under the time charter agreements referred to in note 15(b).

36. **Contingent Liabilities and Commitments (Continued)**

Commitments (continued)

During 2007 the group chartered in, from a third party, a Suezmax tanker, for a period of 3 years, expiring in September 2010 with aggregate charter hire payable at 31st December 2008 of U.S.$24.2 million (2007 – U.S.$38.4 million).

Details of the group's capital commitments in respect of newbuilding contracts are disclosed in note 8.

Details of the group's obligations under finance leases are disclosed in note 23.

37. **Contingent Asset**

Following a review of the group's operations, in conjunction with the restructuring of the group's business, some irregularities were discovered including the sale of four subsidiary companies which owned shipbuilding contracts. During 2005 through to 2008 the group filed claims in London for losses arising out of various transactions which were estimated as being in the region of between U.S.$700 million and U.S.$770 million.

During the period 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 2004 as well as on a claim against Clarksons relating to losses arising on termination of sale and leaseback transactions as a result of a year end vessel valuation performed by Clarksons as at 31 December 2003, and in respect of certain potential claims against Clarksons on the terms of the settlement.

Following the settlement of the above claims the revised balance of the claims filed in London is in the region of between U.S.$660 million and U.S.$730 million.

The total amount received and / or accrued during the period in respect of commissions and reimbursement of legal expenses amounted to U.S.$67.223 million, including the settlement from Clarksons, of U.S.$55 million, recognised as follows:

	2008 U.S.$'000	2007 U.S.$'000
Fleet	25,498	-
Tonnage under construction	1,480	1,942
Other non-operating income / (expenses)	37,745	1,542
Trade and other receivable (Casualty and other claims)	2,500	-
	67,223	3,484

Included in other non-operating income / (expenses) in the income statement are legal and professional fees amounting to U.S.$6.44 million (2007 – U.S.$3.58 million) in connection with these claims

38. **Related Party Transactions**

Related party transactions comprised:

(i) Included in tonnage under construction (note 8) are two newbuildings (2007 – three) with a total contracted cost of U.S.$251 million (2007 – U.S.$291 million) placed on order from a State controlled shipyard in 2006. As at 31st December 2008 instalments of U.S.$175.6 million (2007 – U.S.$201.7 million) were outstanding in respect of the shipbuilding agreements.

(ii) Bank balances include U.S.$67.2 million (2007 – U.S.$61.2 million) held with State controlled banks. Interest received on those accounts during the period amounted to U.S.$3.61 million (2007 – U.S.$3.62 million).

(iii) Included in the long-term time charters, with aggregate hires receivable of U.S.$2.08 billion, referred to in note 36 above, are two agreements entered into with a State controlled entity with aggregate hires receivable of U.S.$984 million. The charters are for 25 years and are expected to commence during 2009. The group has obtained guarantees from the State controlled shareholders of the charterers in respect of the performance of the obligations of the charterers under the time charter agreements.

38. **Related Party Transactions (Continued)**

(iv) The time charter agreements referred to in note 14, with aggregate time charter hire receivable of U.S.$1.59 billion, included two agreements entered into by the joint ventures with a subsidiary of a State controlled entity with aggregate hires receivable as at the period end over the remaining firm period of the charters of U.S.$821 million. The charters are for 20 years commencing in October 2007 and January 2008. Under the agreements, the charterers have the option to purchase the vessels as explained in note 14.

(v) On 9th April 2007 the group acquired, from a State controlled entity, 49% of the ordinary share capital of Closed Joint Stock Company Rosnefteflot, a technical manager of off-shore maritime projects and port fleet operator, incorporated under the Laws of the Russian Federation, for a total purchase consideration of U.S.$3.7 million. The company has been accounted for as an associate in these financial statements (note 13).

(vi) On 1st June 2007 JSC Sovcomflot signed a lease agreement with JSC Rosnefteflot to lease out part of the premises owned by Sovcomflot located at 7 Dunayevskogo Street, Moscow 121165, Russian Federation. The initial lease term was for eleven months commencing on 1st June 2007 at a lease rental for the period of Roubles 16.552 million (equivalent to U.S.$0.644 million). On 1st May 2008 the lease agreement was extended for a further period of eleven months at a lease rental for the period of Roubles 17.19 million (equivalent to U.S.$0.563 million).

(vii) The group received services from one of its associates for the manning and port agency services. An amount of U.S.$0.132 million has been expensed during the period.

(viii) During 2008 the group entered into defined contribution pension scheme arrangements with a state controlled entity. An amount of U.S.$0.239 million has been paid into the scheme during the period. The administration fee charged by the scheme is comparable with other similar organisations and it is defined in Russian Legislation.

(ix) Delivery of two Escort tugs on bareboat charter to an associated undertaking for a period of 15 years as explained in note 8.

(x) The group also receives services from State controlled bodies at prices comparable with other similar organisations, the total amounts of which are not material.

39. **Events After the Reporting Period**

On 15th and 21st January 2009, the group signed agreements for the purchase of three Escort tugs for an aggregate purchase consideration of €19.80 million with the intention to bareboat charter them to an associated undertaking when delivered. The first tug was delivered on 11th March 2009 and bareboat chartered to the associated undertaking on the same date for a period of 15 years with aggregate hires receivable of U.S.$24.4 million. The other two tugs are expected to be delivered between May and July 2009. Bareboat charter agreements for these tugs have not yet been completed.

The m/v “Maxim Gorkiy” was sold on 9th January 2009 and delivered to her new owners on 26th January 2009.

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.

One Artic Shuttle tanker the m/v “Timofey Guzhenko” was delivered to the group by the Shipyard on 24th February 2009.

On 23rd March 2009 the group completed the buy-back of the Novoship preference shares referred to in note 36 of these financial statements. A total of 48,719,980 shares were transferred back to the company. As a result of the buy-back, the effective shareholding of Sovcomflot in Novoship increased from 74.29% to 85.23%.

40. **Comparatives**

Certain comparatives have been re-presented in order to be consistent with the current year’s presentation.

JSC SOVCOMFLOT
AND ITS SUBSIDIARY CORPORATIONS

CONSOLIDATED FINANCIAL STATEMENTS

31st December 2007

JSC Sovcomflot

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Independent Auditors' Report to the Shareholders of JSC Sovcomflot

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

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

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.

Auditor's 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 financial statements give a true and fair view of the financial position of the group as of 31st December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens LLP

St. Paul's House,
London, EC4M 7BP

MOORE STEPHENS LLP

Chartered Accountants

29th March 2008

Consolidated Balance Sheet – 31st December 2007

(Expressed in U.S.$'000)

	Note	2007		2006	
Assets					
Non-current assets					
Fleet	8	3,566,369		3,183,382	
Tonnage under construction	9	983,142		741,259	
Unamortised drydock cost	12	73,778		75,828	
Other fixed assets	13	49,471		36,783	
Other fixed assets under construction	10	2,295		1,085	
Derivative financial instruments	22	178		3,761	
Investments	14	5,496		2,702	
Deferred tax assets	25	2,041		5,928	
			4,682,770		4,050,728
Intangible assets	16		39,598		44,143
Non-current assets held for sale	11		21,458		36,197
Current assets					
Inventories	17	44,356		21,990	
Voyage suspense accounts		6,241		5,004	
Trade and other receivables	18	182,883		133,199	
Derivative financial instruments	22	387		2,302	
Investments	14	3,016		2,920	
Cash and cash equivalents	20	293,933		302,584	
			530,816		467,999
Total assets			5,274,642		4,599,067
Equity and liabilities					
Equity attributable to the equity holder of the parent					
Issued capital	23	405,012		380,407	
Share premium	23	818,845		-	
Group reconstruction reserve	24	(834,490)		8,960	
Reserves		1,895,975		1,545,261	
			2,285,342		1,934,628
Minority interest			437,148		360,982
Total equity			2,722,490		2,295,610
Non-current liabilities					
Secured bank loans	20	2,102,982		1,884,585	
Finance lease liabilities	21	17,348		18,646	
Derivative financial instruments	22	37,569		20,046	
Deferred tax liabilities	25	33,537		41,090	
			2,191,436		1,964,367
Current liabilities					
Trade and other payables	19	193,777		153,965	
Secured bank loans	20	151,871		179,918	
Finance lease liabilities	21	1,300		1,360	
Derivative financial instruments	22	13,768		3,847	
			360,716		339,090
Total equity and liabilities			5,274,642		4,599,067

Approved by the Executive Board on 28th March 2008 and signed on its behalf by

S.O. Frank
Chairman of the Executive Board

N.L. Kolesnikov
Member of the Executive Board

Consolidated Income Statement
For the year ended 31st December 2007
(Expressed in U.S.$'000)

	Note	2007		2006	
Freight and hire receivable			1,242,715		1,070,541
Direct operating expenses					
Voyage expenses and commissions		266,692		211,913	
Vessels' running costs		238,397		200,162	
Charter hire payments		12,539		3,571	
Vessels' drydock cost amortisation	12	41,774		41,511	
			(559,402)		(457,157)
Profit on vessels' trading			683,313		613,384
Other operating expenses					
Depreciation and amortisation					
Vessels' depreciation	8	133,178		118,287	
Other depreciation	13	5,326		6,665	
Reversal of impairment of other fixed assets	13	(5,142)		-	
Intangible assets' amortisation	16(b)	8,087		1,152	
			141,449		126,104
Bad and doubtful debts	18		576		(638)
General and administrative expenses					
Administration expenses	26	73,316		57,158	
Project related expenses		640		610	
Non-income based taxes	25	8,629		8,220	
Bank charges and fees		2,440		5,344	
			85,025		71,332
Total other operating expenses			227,050		196,798
Profit from vessels' operations			456,263		416,586
Gain on sale of assets			120,825		12,105
Gain on disposal of shares in joint venture	30(b)		-		1,250
Gain on disposal of investments			2,588		131
Share of (losses) / gains in associated undertakings	14		(1,354)		157
Operating profit			578,322		430,229
Other (expenses) / income					
Interest expense		(108,834)		(89,052)	
Bank and other interest receivable		18,836		12,487	
Other income		8,774		12,759	
Loss on hedging instruments	22	(1,814)		(1,353)	
Loss on derivative financial instruments held for trading	22	(4,432)		(425)	
Differences on exchange		3,107		4,364	
Net other expenses			(84,363)		(61,220)
Profit before income taxes			493,959		369,009
Income taxes	25		(23,118)		(8,967)
Profit for the period			470,841		360,042
Attributable to:					
Equity holder of the parent			391,009		299,379
Minority interest			79,832		60,663
			470,841		360,042

Consolidated Statement of Changes in Equity
For the year ended 31st December 2007
(Expressed in U.S.$'000)

	Share Capital	Share Premium	Group Reconstruction Reserve	Hedging Reserve	Fair value Reserve
Balance 1st January 2006	380,407	-	8,960	(698)	-
Profit for the period	-	-	-	-	-
Release of hedging instruments	-	-	-	338	-
Movement in hedging instruments	-	-	-	(16,433)	-
Hedging instruments written off to income statement	-	-	-	721	-
Net change in fair value of available for sale financial assets	-	-	-	-	281
Currency translation differences	-	-	-	-	-
Dividends (note 27)	-	-	-	-	-
Balance 31st December 2006	380,407	-	8,960	(16,072)	281
Issue of shares	24,605	818,845	-	-	-
Profit for the period	-	-	-	-	-
Release of hedging instruments	-	-	-	619	-
Movement in hedging instruments	-	-	-	(25,964)	-
Hedging instruments written off to income statement	-	-	-	740	-
Movement in group reconstruction reserve	-	-	(843,450)	-	-
Net change in fair value of available for sale financial assets	-	-	-	-	191
Currency translation differences	-	-	-	-	-
Dividends (note 27)	-	-	-	-	-
Balance 31st December 2007	405,012	818,845	(834,490)	(40,677)	472

…. / continued

Consolidated Statement of Changes in Equity (Continued)
For the year ended 31st December 2007
(Expressed in U.S.$'000)

	Currency Reserve	Retained Earnings	Attributable to equity holder of the parent	Minority Interest	Total
Balance 1st January 2006	(225)	1,273,363	1,661,807	301,481	1,963,288
Profit for the period	-	299,379	299,379	60,663	360,042
Release of hedging instruments	-	-	338	-	338
Movement in hedging instruments	-	-	(16,433)	788	(15,645)
Hedging instruments written off to income statement	-	-	721	364	1,085
Net change in fair value of available for sale financial assets	-	-	281	142	423
Currency translation differences	683	-	683	(60)	623
Dividends (note 27)	-	(12,148)	(12,148)	(2,396)	(14,544)
Balance 31st December 2006	458	1,560,594	1,934,628	360,982	2,295,610
Issue of shares	-	-	843,450	-	843,450
Profit for the period	-	391,009	391,009	79,832	470,841
Release of hedging instruments	-	-	619	-	619
Movement in hedging instruments	-	-	(25,964)	14	(25,950)
Hedging instruments written off to income statement	-	-	740	22	762
Movement in group reconstruction reserve	-	-	(843,450)	-	(843,450)
Net change in fair value of available for sale financial assets	-	-	191	96	287
Currency translation differences	3,107	-	3,107	774	3,881
Dividends (note 27)	-	(18,988)	(18,988)	(4,572)	(23,560)
Balance 31st December 2007	3,565	1,932,615	2,285,342	437,148	2,722,490

Consolidated Cash Flow Statement
For the year ended 31st December 2007
(Expressed in U.S.$'000)

	2007		2006	
Operating Activities				
Cash received from freights and hire of vessels	1,230,607		1,050,444	
Other cash receipts	42,340		22,310	
Cash payments for voyage and running costs	(534,609)		(410,006)	
Other cash payments	(107,297)		(79,759)	
Cash generated from operations		631,041		582,989
Interest received		15,312		11,682
Taxation paid		(33,325)		(14,730)
Net cash inflow from operating activities		613,028		579,941
Investing Activities				
Acquisition of subsidiary net of cash acquired (note 29)	-		(64,252)	
Acquisition of investments (note 14)	(3,839)		(2,695)	
Proceeds from sale of investments	3,399		-	
Expenditure on fleet	(6,159)		(99,843)	
Expenditure on drydocking	(31,770)		(40,960)	
Expenditure on tonnage under construction	(862,256)		(807,807)	
Purchase of other fixed assets	(20,860)		(2,577)	
Proceeds on sale of assets	238,391		17,270	
Proceeds on sale of shares in subsidiary (note 30(a))	-		1,300	
Proceeds on sale of shares in joint venture (note 30(b))	-		5,250	
Net cash outflow from investing activities		(683,094)		(994,314)
Financing Activities				
Loans drawn down	1,240,299		1,097,307	
Repayment of loans	(1,043,122)		(544,571)	
Financing costs	(3,818)		(8,595)	
Proceeds from the termination of hedging instruments	1,812		-	
Capital element of finance leases	(1,358)		(538)	
Interest paid on loans	(108,185)		(82,847)	
Interest paid on finance leases	(1,334)		(588)	
Dividends paid	(22,879)		(14,252)	
Net cash inflow from financing activities		61,415		445,916
(Decrease) / increase in cash and cash equivalents		(8,651)		31,543
Cash and cash equivalents at beginning of period		302,584		271,041
Cash and cash equivalents at end of period		293,933		302,584

Notes to the Consolidated Financial Statements – 31st December 2007

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

On 5th December 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in JSC Novoship, a company incorporated in the Russian Federation, to JSC Sovcomflot in exchange for 602,158,693 shares of the company, at a price of 34.28 Roubles (U.S.$1.40071) per share (see also note 23), thus uniting its interest in the two companies.

Business combinations involving entities under common control are excluded from the scope of IFRS 3 "Business Combinations" provided that they are controlled by the same party both before and after the business combination.

As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of JSC Novoship has been accounted for on a pooling of interests basis. The financial position, financial performance and cash flows of the combined group have been brought together as if the companies had always been a single entity.

The share capital of JSC Novoship comprises 75% voting ordinary shares and 25% non-voting preference shares. Ownership of the shares is analysed as follows:

	Ordinary shares %	Preference shares %	Total shares %
JSC Sovcomflot	67.13	-	50.34
Treasury shares held by subsidiaries of JSC Novoship	23.21	27.44	24.28
Minority shareholders (see note 36)	9.66	72.56	25.38
	100.00	100.00	100.00

Ordinary and preference shareholders of JSC Novoship participate equally in the distribution of the net assets of the company on liquidation. Consequently JSC Sovcomflot holds an effective interest in JSC Novoship of 66.48%.

2. **Significant Accounting Policies**

(a) Basis of accounting

The financial statements have been prepared in U.S. Dollars, the functional 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 Sovcomflot ("Sovcomflot") and its subsidiaries and joint ventures, for the period from 1st January 2007 (or subsequent dates of incorporation) to 31st December 2007.

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 ventures 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.

Notes to the Consolidated Financial Statements – 31st December 2007
(Continued)

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

(d) 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 balance sheet 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.

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.

(e) 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.

(f) 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(d) above.

Other intangible assets represent time charter agreements acquired. Amounts are reported at fair value less accumulated amortisation and accumulated impairment losses. The fair value is calculated using the effective interest rate implicit to each time charter agreement, which is the rate at which the net future cash flows associated with the time charter agreements break even. Amortisation is charged on a straight-line basis over the period of the charter.

(g) 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.

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

(h) 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 balance sheet date in respect of time charter voyages in progress. Profits arising from voyage charters in progress at the balance sheet date are apportioned into accounting periods on the basis of the proportion of the voyage completed at the balance sheet date on a discharge / discharge port basis. Full provision is made for any losses on voyages in progress at the balance sheet date.

(i) 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.

(j) 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 balance sheet date 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:

	2007 Exchange rate U.S.$1	2006 Exchange rate U.S.$1
Russian Roubles	24.5387	26.3255
Sterling Pounds	0.5024	0.5109
Euros	0.6840	0.7584
Swiss Francs	1.1322	1.2207
Cyprus Pounds	0.4004	0.4385

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 on reserves. All other exchange differences have been dealt with through the income statement.

(k) Borrowing costs

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

(l) Leasing

Finance and operating lease payables

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.

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

(l) Leasing (continued)

Finance lease receivables

Amounts due from lessees under finance leases are recorded as receivable at the amount of the group's net investment in the leases calculated by discounting the total amount receivable, at the date of the lease agreement, at the interest rate implicit within the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding.

(m) Retirement benefit costs

The group operates a number of defined contribution pension schemes for its shore-based staff and seafarers. Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

(n) Fixed assets and depreciation

The group's fleet, buildings and other fixed assets are stated in the balance sheet at cost less accumulated depreciation and any accumulated impairment loss.

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 and chemical tankers	25 years
LNG carriers	35 years
LPG carriers	30 years
Second hand LNG carriers (note 16(b))	43 years
Multi-purpose dry cargo vessels	25 years
Cruise vessels	40 years

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

	2007 U.S.$ per LWT	2006 U.S.$ per LWT
Oil, product and chemical tankers	505	410
LNG and LPG carriers	518	410
Multi-purpose dry cargo vessels	475	390
Cruise vessels	400	320

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 3% and 5% and between 20% and 33% per annum respectively.

Leasehold improvements are included within other fixed assets and are depreciated over the non-cancellable period of the operating lease to which they relate.

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.

(o) 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, finance costs and interest capitalised.

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 – 31st December 2007 (Continued)

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

(p) Drydocking and special survey costs

Drydocking and special survey costs are capitalised and written off to running costs 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.

(q) Impairment

At each balance sheet date, 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.

(r) 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.

(s) Financial instruments

Financial assets and liabilities are recognised on the group's balance sheet when the group has become a party to the contractual provisions of the instrument. The carrying amount of the financial assets and financial liabilities of the group approximate to their fair values.

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 a 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.

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

(s) Financial instruments (continued)

Available-for-sale 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 directly in equity, in the fair value reserve, 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. Any difference between the proceeds (net of transaction costs) and the settlement of the borrowings is recognised over the term of the borrowings.

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 each balance sheet date.

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 directly in equity 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.

(t) 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. Income taxes in respect of the parent company are accounted for in accordance with Russian fiscal regulations. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

(t) Taxation (continued)

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 balance sheet 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 balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 equity, in which case the tax is also recognised directly in equity, 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.

(u) 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 balance sheet date, taking into account the risks and uncertainties surrounding the obligation, and are discounted to present value where the effect is material.

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 2007.

The impact of the adoption of IFRS 7 "Financial Instruments: Disclosures" and the changes to IAS 1 "Amendment to IAS 1 ("Capital Disclosures")" has been to expand the disclosures provided in these financial statements regarding the group's financial instruments and management of capital (see note 5). The adoption of the Interpretations issued by the IASB has not led to any changes in the group's accounting policies.

At the balance sheet date, the following Standards and Interpretations were in issue but not yet effective:

IFRS 8	Operating Segments
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Revised IAS 23	Borrowing Costs
Revised IAS 1	Presentation of Financial Statements

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 substantial changes to the disclosures required in the financial statements, as well as changes in the presentation of performance introduced by the revised IAS 1 which is effective for accounting periods beginning on 1st January 2009.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The following are the critical accounting judgements concerning the future and the key sources of estimation uncertainty at the balance sheet date that have a significant impact on the carrying value of assets and liabilities:

1. The estimate of the anticipated useful economic life of the fleet and the estimate of residual values used for the purpose of establishing the group's depreciation policy.
2. The fair value of the time charters attached to the vessels acquired during 2006 referred to in note 16(b).

5. 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 balance sheet position and high borrowings 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.

Notes to the Consolidated Financial Statements – 31st December 2007
(Continued)

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

(a) Capital risk management (continued)

The group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio. 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 8 ("total adjusted capital"). Net debt is calculated as the total of secured bank loans and finance lease liabilities, disclosed in notes 20 and 21 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 2007 the group's overall strategy remained unchanged from 2006. The debt to total equity ratio at 31st December 2007 and at 31st December 2006 and the total adjusted capital of the group were as follows:

	2007 U.S.$'000	2006 U.S.$'000
Secured bank loans (note 20)	2,254,853	2,064,503
Finance lease liabilities (note 21)	18,648	20,006
Less: cash and cash equivalents	(293,933)	(302,584)
Net debt	1,979,568	1,781,925
Total equity	2,722,490	2,295,610
Total capital	4,702,058	4,077,535
Net debt ratio	42.1%	43.7%
Total capital	4,702,058	4,077,535
Add: excess of market value of fleet over carrying value	2,832,221	2,225,151
Total adjusted capital	7,534,279	6,302,686
Net adjusted debt ratio	26.3%	28.3%

(b) Categories of financial instruments

	2007 U.S.$'000	2006 U.S.$'000
Financial assets		
Derivative instruments in designated hedge accounting relationships	565	6,063
Loans and receivables (including cash and cash equivalents)	483,057	440,787
Total financial assets	483,622	446,850
Non-financial assets	4,791,020	4,152,217
Total Assets	5,274,642	4,599,067
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	43,435	20,738
Financial liabilities at fair value through profit or loss	7,902	3,155
Amortised cost	2,467,278	2,238,474
Total financial liabilities	2,518,615	2,262,367
Non-financial liabilities	33,537	41,090
Total liabilities	2,552,152	2,303,457
Total equity	2,722,490	2,295,610
Total equity and liabilities	5,274,642	4,599,067

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

(c) 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 financial risk 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.

Market risk

Foreign 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 Sterling Pound. The group utilises its revenues in Euros and Russian Roubles and uses derivative financial instruments (see note 22) 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	
	2007 U.S.$'000	2006 U.S.$'000	2007 U.S.$'000	2006 U.S.$'000
Euro (EUR)	29,056	44,428	29,992	23,658
Russian Roubles (RUR)	15,486	6,577	91,271	54,637
Sterling Pounds (GBP)	2,595	4,093	3,523	2,716

Had the foreign exchange rate between the U.S. Dollar and the above currencies at 31st December increased or decreased by 10% with all other variables held constant, the effect on the monetary liabilities / assets is shown below.

	Liabilities		Assets	
	2007 U.S.$'000	2006 U.S.$'000	2007 U.S.$'000	2006 U.S.$'000
Euro (EUR)	2,906	4,443	2,999	2,366
Russian Roubles (RUR)	1,549	658	9,127	5,464
Sterling Pounds (GBP)	260	409	352	271

The effect of an increase / decrease of 10% in the foreign exchange rate of the U.S. Dollar against the Euro and the Sterling Pound on the fair value of the currency rate derivative financial instruments disclosed in note 22 would not have a material impact on the group's profit or loss.

Cash flow interest rate risk

The group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During 2007 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.

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

(c) Financial risk factors (continued)

Cash flow interest rate risk (continued)

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 22 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 2007 was as follows:

	2007 U.S.$'000	2006 U.S.$'000
Total floating rate borrowings (gross of direct issue costs)	2,156,399	1,947,992
Notional amount of floating to fixed rate swaps	(590,986)	(291,671)
Net exposure to interest rate fluctuations	1,565,413	1,656,321
% of borrowing exposed to interest rate fluctuations	72.59%	85.03%

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 2007 would increase / decrease approximately by U.S.$13.37 million (2006 – increase / decrease by U.S.$13.73 million), excluding any interest capitalised. This is mainly attributable to the exposure of the group's floating rate borrowings not hedged; and

- hedging reserve and profit for the period would decrease / increase by approximately U.S.$47 million and U.S.$2 million respectively (2006 – decrease / increase by U.S.$50.4 and U.S$0.4 million respectively) due to the change in the fair value of interest rate swaps designated as hedging instruments.

The group's sensitivity to interest rate net exposure has decreased during the period mainly due to the increase of the notional principal amount of interest rate swaps used to hedge floating rate borrowings.

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 on time charter and on the spot market in accordance with the set policies of the group. As at 31st December 2007, 67.20% of the vessels were on time charter (2006 – 67.44%) representing 60.31% (2006 – 53.86%) of freight and hire receivable.

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 18 of these financial statements. 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.

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

(c) 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.

Below is a table summarising additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

	Credit facilities U.S.$'000	Drawn down U.S.$'000	Available U.S.$'000
At 31st December 2007			
Secured bank term loans	1,418,537	(908,455)	510,082
Secured revolving credit facilities	1,121,098	(476,840)	644,258
	2,539,635	(1,385,295)	1,154,340
At 31st December 2006			
Secured bank term loans	1,545,845	(449,759)	1,096,086
Secured revolving credit facilities	649,759	(396,239)	253,520
	2,195,604	(845,998)	1,349,606

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
At 31st December 2007				
Trade and other payables	193,777	-	-	193,777
Finance leases liabilities	1,300	6,060	11,288	18,648
Secured bank loans	151,871	636,669	1,466,313	2,254,853
	346,948	642,729	1,477,601	2,467,278
At 31st December 2006				
Trade and other payables	153,965	-	-	153,965
Finance leases liabilities	1,360	5,686	12,960	20,006
Secured bank loans	179,918	752,810	1,131,775	2,064,503
	335,243	758,496	1,144,735	2,238,474

Other price risks

The group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The group does not actively trade these investments.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. If equity prices had been 5% higher / lower:

- profit for the year ended 31st December 2007 would have been unaffected as the equity investments are classified as available-for-sale and no investments were disposed of or impaired; and

- fair value reserve would increase / decrease by U.S.$0.132 million (2006 – increase / decrease by U.S.$0.127 million) as a result of the changes in fair value of available-for-sale financial assets.

Notes to the Consolidated Financial Statements – 31st December 2007
(Continued)

6. Organisation and Trading Activities

JSC Sovcomflot was registered in Russia on 18th December 1995, as the successor undertaking to AKP Sovcomflot, in which the Russian Federation holds 100% of the issued shares.

The company, through its subsidiaries and joint ventures, is engaged in ship owning and operating on a world-wide basis with a fleet of 124 vessels at the period end, comprising 108 tankers, 1 chartered in tanker, 5 gas carriers, 5 multi-purpose dry cargo vessels, 4 bulk carriers and 1 cruise vessel.

The number of employees employed by the company, its subsidiaries and joint ventures at 31st December 2007 was 5,207 (2006 – 5,337), comprising ships' staff of 2,994 (2006 – 3,145) and shore-based staff of 2,213 (2006 – 2,192).

The company's registered office address is 3A, Moika River Embankment, Saint Petersburg 191186, Russian Federation and its head office is located at 6 Gasheka Street, Moscow 125047, Russian Federation. The group's fleet is managed by Unicom Management Services (Cyprus) Limited, JSC Novoship, Novoship (UK) Ltd, and W.W. Marpetrol S.A.

JSC Sovcomflot currently has a Baa1 credit rating with Moody's.

7. Directors and Management

The corporate structure of JSC Sovcomflot comprises a Board of Directors which is responsible for policy decisions and overall supervision of the group and an Executive Board which is responsible for day to day management.

The Board of Directors are:

I.I. Shuvalov	Chairman
A.S. Misharin	
A.V. Bortnikov	
Y.M. Medvedev	
A.A. Davydenko	
S.O. Frank	
A.L. Kostin	
G.S. Nikitin	
A.V. Tikhonov	
S.E. Naryshkin	
A.A. Sokolov	

The Executive Board members are:

S.O. Frank	Chairman
V.A. Mednikov	
S.N. Burima	
N.L. Kolesnikov	
S.G. Popravko	
A.V. Khlyunev	
C.B. Ludgate	
A.L. Kurtynin	
Lord N.A. Fairfax	

8. **Fleet**

	2007 U.S.$'000	2006 U.S.$'000
Cost		
At 1st January 2007	4,113,542	3,147,122
Transferred (to) / from non-current assets held for sale (note 11)	(78,942)	50,736
Acquired on acquisition of Marpetrol (note 29)	-	245,618
Transferred from tonnage under construction (note 9)	605,479	640,770
Expenditure in period	5,095	55,960
Disposals in period	(233,907)	(26,664)
At 31st December 2007	4,411,267	4,113,542
Depreciation		
At 1st January 2007	930,160	793,488
Transferred (to) / from non-current assets held for sale (note 11)	(60,785)	40,758
Charge for the period	133,178	118,287
Eliminated on disposal	(157,655)	(22,373)
At 31st December 2007	844,898	930,160
Net book value		
At 31st December 2007	3,566,369	3,183,382
Market value less unamortised dry-dock cost*	6,398,590	5,408,533
Current insured values*	6,345,292	5,125,268
Total deadweight tonnage (dwt)*	8,369,490	7,998,219

* Including group's share in the Joint Ventures (note 15).

Summary of fleet at 31st December 2007:

Type of vessel	Number of Vessels		Dwt'000		Net book value U.S.$ million	
	2007	2006	2007	2006	2007	2006
Oil tankers and product carriers	106	107	8,080	7,730	3,319	3,029
LNG and LPG carriers **	5	3	164	108	218	100
Cruise vessels	-	1	-	6	-	9
Multi-purpose drycargo vessels	5	8	48	77	22	38
Bulk Carriers	3	3	77	77	7	7
	119	122	8,369	7,998	3,566	3,183
Vessel held for sale (note 11)	4	7	80	309	18	34
	123	129	8,449	8,307	3,584	3,217

** Includes one LNG carrier owned by a joint venture (note 15). The DWT and net book value includes the group's share in the vessel of the joint venture.

As at 31st December 2007 the directors reviewed the carrying amounts of the vessels, to determine whether there was any indication that the vessels have suffered an impairment loss. No indication of an impairment existed as of the balance sheet date.

Effective 1st January 2007 the group revised the estimated useful economic life of a number of its tankers and bulk carriers from between 20 to 25 years to 25 years, consistent with most other shipping companies and in line with general industry practice. The change in accounting estimate resulted in a reduction in the depreciation charge for the period of U.S.$3.252 million.

As at 31st December 2007 the directors have reassessed the residual value of the fleet in accordance with the group's accounting policy (see note 2 (n)). The effect of this change in estimate on the results for the period has been to reduce the depreciation charge by U.S.$7.4 million.

Included in the group's fleet are leased vessels with an aggregate carrying value of U.S.$130.8 million (2006 – U.S.$135.2 million).

9. Tonnage Under Construction

	2007 U.S.$'000	2006 U.S.$'000
At 1st January 2007	741,259	597,269
Expenditure in period	862,762	804,960
Transferred to fleet (note 8)	(605,479)	(640,770)
Transferred to unamortised drydock costs (note 12)	(15,400)	(16,200)
Disposal in period (note 30(b))	-	(4,000)
At 31st December 2007	983,142	741,259
Total deadweight tonnage (dwt) including group's share under joint venture agreements (note 15)	2,722,845	3,658,485

In addition to the group's share in the joint ventures owning shipbuilding contracts for the construction of two 145,700 CBM LNG carriers and two 145,000 CBM LNG carriers as explained in note 15, assets under construction at 1st January 2007 comprised eleven Suezmax tankers, ten Aframax tankers, seven Product tankers, one LPG carrier and five Arctic Shuttle tankers scheduled for delivery between January 2007 and April 2010 at a total contracted cost to the group of U.S.$2,370 million.

During the period, the group entered into contracts for the construction of four Asphalt carriers at a total contracted cost of U.S.$71.28 million, scheduled for delivery between April and October 2010 and of two Escort tugs at a total contracted cost of U.S.$20.41 million (€13.96 million) scheduled for delivery on 31st May and 31st August 2009.

Upon delivery by the shipyard the two Escort tugs will be delivered on Bareboat Charter to an associated undertaking for a period of 15 years at a rate to be calculated based on the total construction cost of the vessels. Consequently the vessels will be classified as finance lease receivables. On payment of the final hire payment, and provided that the charterers fulfil all their obligations under the bareboat charter agreements for both vessels, legal ownership of the vessels will pass to the charterers.

Vessels delivered during the period comprised the following:

Vessel Name	Vessel Type	Delivery Date
SCF Tomsk	LPG carrier	12th January
Aleksey Kosygin	Suezmax tanker	26th July
NS Leader	Aframax tanker	14th May
NS Columbus	Aframax tanker	22nd May
NS Creation	Aframax tanker	4th July
NS Lion	Aframax tanker	6th July
Tverskoy Bridge	Product tanker	24th August
NS Laguna	Aframax tanker	5th October
Grand Elena *	LNG carrier	31st October
SCF Yenisei	Product tanker	21st November
SCF Pechora	Product tanker	26th November
SCF Amur	Product tanker	13th December

* Vessel owned by a joint venture company. See note 15.

In addition to the group's share of the capital commitments under the joint venture agreements for the construction of the remaining three LNG carriers, assets under construction at 31st December 2007 comprised ten Suezmax tankers, five Aframax tankers, three Product tankers, five Arctic Shuttle tankers, two Escort tugs and four Asphalt carriers scheduled for delivery between January 2008 and October 2010 at a total contracted cost to the group of U.S.$1,945 million. As at 31st December 2007 U.S.$809 million of the contracted costs had been paid for.

In addition to the facilities arranged under the joint venture agreements referred to in note 15, facilities of U.S.$667.2 million have been arranged with the group's bankers to finance the construction of the four Suezmax tankers, three Product tankers, one Aframax tanker and three Arctic Shuttle tankers. As of 31st December 2007 an amount of U.S.$247.1 million has been drawn down under the above facilities (see also note 20).

Included in expenditure in the period is an amount of U.S.$23.5 million (2006 – U.S.$8.1 million) representing interest capitalised during the period in accordance with the group's accounting policy concerning borrowing costs (note 2(o)).

Notes to the Consolidated Financial Statements – 31st December 2007
(Continued)

10. Other Fixed Assets Under Construction

	2007 U.S.$'000	2006 U.S.$'000
At 1st January 2007	1,085	586
Expenditure in period	8,363	5,154
Transferred to other fixed assets (note 13)	(6,772)	(4,655)
Disposals	(381)	-
At 31st December 2007	2,295	1,085

11. Non-Current Assets Held for Sale

	2007 U.S.$'000	2006 U.S.$'000
At 1st January 2007	36,197	44,254
Transferred from / (to) fleet (note 8)	18,157	(9,978)
Transferred from unamortised drydock cost (note 12)	3,301	1,921
Disposals	(36,197)	-
At 31st December 2007	21,458	36,197
Market value	35,500	59,375
Current insured value	36,500	59,200
Total deadweight tonnage (dwt)	80,160	309,450

Prior to the year end, the directors made a decision to dispose of two Product tankers, the m/v "Vladimir Kokkinaki" and the m/v "Yevgeniy Titov", one bulk carrier the m/v "Vladimir Vysotskiy" and the group's passenger vessel, the m/v "Maxim Gorkiy". The vessels are actively marketed for sale and are expected to be sold and delivered to their new owners within twelve months. The m/v "Maxim Gorkiy" is expected to be delivered to her new owners after the expiration of its existing time charter in November 2008. Consequently, the vessels have been classified as held for sale at 31st December 2007 and are presented separately in the balance sheet. The proceeds on disposal are expected to exceed the net carrying amount of the vessels and accordingly no impairment loss has been recognised on the classification of the vessels as held for sale.

12. Unamortised Drydock Cost

	2007 U.S.$'000	2006 U.S.$'000
Cost		
At 1st January 2007	123,351	106,588
Acquired on acquisition of Marpetrol (note 29)	-	3,384
Expenditure in period	32,364	46,944
Transferred from tonnage under construction (note 9)	15,400	16,200
Eliminations	(22,657)	(46,862)
Disposals	(9,012)	(955)
Transferred to non-current assets held for sale (note 11)	(4,870)	(1,948)
At 31st December 2007	134,576	123,351
Amortisation		
At 1st January 2007	47,523	53,137
Charge for the period	41,774	41,511
Eliminations	(22,657)	(46,862)
Disposals	(4,273)	(236)
Transferred to non-current assets held for sale (note 11)	(1,569)	(27)
At 31st December 2007	60,798	47,523
Net book value		
At 31st December 2007	73,778	75,828

13. Other Fixed Assets

	Land and Buildings 2007 U.S.$'000	Miscellaneous 2007 U.S.$'000	Total 2007 U.S.$'000	Total 2006 U.S.$'000
Cost				
At 1st January 2007	63,994	44,082	108,076	101,332
Acquisition of Marpetrol	-	-	-	98
Expenditure in period	-	6,114	6,114	4,327
Transferred from other fixed assets under construction	2,820	3,952	6,772	4,655
Disposals	(154)	(1,396)	(1,550)	(2,453)
Exchange adjustment	138	260	398	117
At 31st December 2007	66,798	53,012	119,810	108,076
Depreciation				
At 1st January 2007	40,306	30,987	71,293	66,203
Charge for the period	1,453	3,873	5,326	6,665
Reversal of impairment	(5,142)	-	(5,142)	-
Disposals	(125)	(1,110)	(1,235)	(1,619)
Exchange adjustment	-	97	97	44
At 31st December 2007	36,492	33,847	70,339	71,293
Net book value				
At 31st December 2007	30,306	19,165	49,471	36,783
At 31st December 2006	23,688	13,095	36,783	35,129

Buildings comprise offices in Moscow, St. Petersburg, Novorossyisk and Limassol. The land on which the office in Moscow is built is leased for a period of 49 years from August 1994.

Included in miscellaneous other fixed assets is an amount of U.S.$0.926 million (2006 – U.S.$0.439 million) relating to construction work and furnishing made to leasehold premises in St. Petersburg, which is expected to be completed by the end of 2009 (see also note 33).

14. Investments

	2007 U.S.$'000	2006 U.S.$'000
Investments in associates	3,688	1,153
Other investments	1,808	1,549
	5,496	2,702
Current asset investments	3,016	2,920
	8,512	5,622

Current assets investments comprised:

	2007 U.S.$'000	2006 U.S.$'000
Short-term equity Investments available for sale at fair value	2,645	2,545
Russian State Bonds	371	375
	3,016	2,920

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 which approximates to their fair 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.

Notes to the Consolidated Financial Statements – 31st December 2007
(Continued)

14. Investments (Continued)

Investments in associates are analysed as follows:

	2007 U.S.$'000	2006 U.S.$'000
At 1st January 2007	1,153	377
Share of (losses) / gains in associates	(1,354)	157
Acquisition during the period	3,839	573
Funded losses in associates	(9)	8
Currency retranslation difference	59	38
At 31st December 2007	3,688	1,153

On 9th April 2007 the group acquired 49% of the ordinary share capital of Closed Joint Stock Company Rosnefteflot (see also note 28). At 31st December 2007 the group had participating interests in the following active associates:

Name	Holding	Country of Incorporation	Principal Activity
JSC Rosnefteflot	49%	Russia	Ship Management and port fleet operator
Baltic LNG AG	20%	Switzerland	Investments in the LNG Sector
Baltic LNG Limited (100% subsidiary of Baltic LNG AG)	20%	Russia	Construction and operation of LNG terminal

Summarised financial information in respect of the group's associates is set out below:

	2007 U.S.$'000	2006 U.S.$'000
Total assets	23,463	5,938
Total liabilities	(19,518)	(234)
Net assets	3,945	5,704
Group's share of associates' net assets	1,147	1,138
Revenues	21,408	1,324
(Loss) / gain for the period	(5,091)	823
Group's share of associates' (losses) / gains for the period	(1,354)	157

15. Joint Ventures

On 15th November 2004 the group entered into joint venture agreements with Nippon Yusen Kabushiki Kaisha ("NYK") in respect of four companies, incorporated in Cyprus, owning shipbuilding contracts for the construction of two 145,700 CBM and two 145,000 CBM LNG carriers at a total contracted cost of U.S.$675 million. One 145,000 CBM LNG carrier was delivered on 31st October 2007 while the other three are scheduled for delivery between January 2008 and December 2008. On 27th December 2005 two new joint venture Singapore companies were set up, and on 6th March 2006 the shipbuilding contracts for the construction of the two 145,700 CBM LNG carriers together with all other documents relating to the LNG carriers were novated from LNG East-West Shipping Company Limited and LNG North-South Shipping Company Limited to the two Singapore companies.

On 16th June 2006 the group disposed of 25% of its 50% shareholding in LNG East-West Shipping Company (Singapore) Pte Limited to a third party, P.T. Samudera Shipping Services, being the Indonesian partner in the Joint Venture, for a consideration of U.S.$5.25 million, realising a profit of U.S.$1.25 million (see note 30(b)).

15. **Joint Ventures (Continued)**

The group's interests in the joint ventures are as follows:

Name of Joint Venture	% Holding
LNG East-West Shipping Company Limited	50%
LNG North-South Shipping Company Limited	50%
LNG East-West Shipping Company (Singapore) Pte Limited	37.5%
LNG North-South Shipping Company (Singapore) Pte Limited	50%
NYK-SCF LNG Shipping No.1 Limited	40%
NYK-SCF LNG Shipping No.2 Limited	40%

The following amounts are included in the group's financial statements as a result of proportionate consolidation:

	2007 U.S.$'000	2006 U.S.$'000
Balance Sheet		
Non-current assets	221,422	87,173
Current assets	6,169	1,964
Non-current liabilities	179,911	45,789
Current liabilities	8,689	1,286
Income Statement		
Income	1,544	-
Expenses	1,604	321

The joint venture companies entered into four time charter agreements which expire between sixteen and twenty years with various extension options with aggregate time charter hire receivable over the firm charter periods amounting to U.S.$1.7 billion. Under two of the time charter agreements the charterers have the option to purchase the vessels in years five, ten, fifteen or twenty of the charters at amounts for each vessel ranging from U.S.$176.4 million in the fifth year to U.S.$35 million in the twentieth year.

On 8th December 2005 NYK-SCF LNG Shipping No.1 Limited and NYK-SCF LNG Shipping No.2 Limited entered into two credit agreements with group bankers totalling U.S.$320 million to provide finance for the construction of two 145,000 CBM LNG carriers. As of 31st December 2007 both facilities had been fully drawn down (see also note 20).

In addition NYK-SCF LNG Shipping No.1 Limited and NYK-SCF LNG Shipping No.2 Limited entered into two interest rate swap agreements to hedge the future cash outflows of interest payable on the above mentioned credit agreements against LIBOR rate fluctuations, with an aggregate notional amount of U.S.$310.86 million amortising in accordance with the interest rate swaps amortisation schedules. As of 31st December 2007 the aggregate notional amount of the swaps was U.S.$310.86 million (2006 – U.S.$106 million). These agreements mature on 31st October 2019 and 4th January 2020, respectively. The interest rates have been fixed at 4.7275% and 5.066% compared to U.S.$ three month LIBOR.

On 29th September 2006 LNG East-West Shipping Company (Singapore) Pte Limited and LNG North-South Shipping Company (Singapore) Pte Limited entered into two credit agreements with group bankers totalling U.S.$320 million to provide finance for the construction of the two 145,700 CBM LNG carriers. As of 31st December 2007 an amount of U.S.$124.6 million (2006 – U.S.$Nil) has been drawn dawn under the above facilities (see also note 20).

In addition LNG East-West Shipping Company (Singapore) Pte Limited and LNG North-South Shipping Company (Singapore) Pte Limited entered into two interest rate swap agreements to hedge the future cash outflows of interest payable on the above mentioned credit agreements against LIBOR rate fluctuations, with an aggregate notional amount of U.S.$263 million amortising in accordance with the interest rate swaps amortisation schedules. As of 31st December 2007 the aggregate notional amount of the swaps was U.S.$99.52 million (2006 – U.S.$Nil). These agreements mature on 15th October 2020 and 15th December 2020 respectively. The interest rates have been fixed between 4.97% and 5.420% compared to U.S.$ LIBOR, varying from one to three months.

Notes to the Consolidated Financial Statements – 31st December 2007
(Continued)

15. **Joint Ventures (Continued)**

The group has severally guaranteed to the hedging bank the performance of all the obligations and liabilities under the swap agreements limited to the percentage holding of Fiona Trust and Holding Corporation ("Fiona"), a group company, in the equity share capital of the four companies.

Fiona has guaranteed its share of obligations and responsibilities arising under the shipbuilding contracts, time charter agreements and credit agreements referred to above.

16. **Intangible Assets**

	2007 U.S.$'000	2006 U.S.$'000
(a) Goodwill	9,006	9,006
(b) Fair value of time charter agreements acquired	30,592	35,137
	39,598	44,143

(a) Goodwill

	2007 U.S.$'000	2006 U.S.$'000
Cost		
At 1st January 2007	9,006	-
Arising on the acquisition of Marpetrol (note 29)	-	9,006
At 31st December 2007	9,006	9,006
Impairment		
At 1st January 2007 and 31st December 2007	-	-
Carrying amount		
At 31st December 2007	9,006	9,006

Goodwill has arisen on the acquisition of the entire share capital of W.W. Marpetrol S.A., incorporated in Spain, on 2nd August 2006 and represents the excess of the cost of acquisition paid by the group over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of Marpetrol recognised at the date of acquisition.

The directors have assessed goodwill for impairment at the balance sheet date and concluded that goodwill has not been impaired. Due to the insignificance of goodwill at 31st December 2007 detailed value in use calculations have not been disclosed in the financial statements.

(b) Time Charters Acquired

During 2006 the group acquired two 70,000 CBM LNG carriers, the "SCF Polar" and the "SCF Arctic" together with the time charters attached to each vessel.

The movements in the fair values of the time charter agreements are presented as follows:

	2007 U.S.$'000	2006 U.S.$'000
At 1st January 2007	35,137	-
Fair value of time charters on acquisition	-	36,041
Effective interest for the period	3,542	248
Amortisation for the period	(8,087)	(1,152)
At 31st December 2007	30,592	35,137

The time charter agreements expire on 31st December 2012 with aggregate charter hire receivable as at 31st December 2007 of U.S.$144.48 million (2006 – U.S.$174.86 million).

17. Inventories

	2007 U.S.$'000	2006 U.S.$'000
Bunkers	28,162	12,910
Lubricants	12,261	5,030
Victualling and slopchest	1,167	1,099
Other	2,766	2,951
	44,356	21,990

18. Trade and Other Receivables

	2007 U.S.$'000	2006 U.S.$'000
Amounts due from charterers	69,295	57,138
Allowance for doubtful debts	(2,709)	(3,926)
	66,586	53,212
Casualty and other claims	39,485	14,524
Agents' balances	6,394	5,645
Other debtors	40,466	40,438
Prepayments	12,039	8,328
Deferred finance charges	440	4,082
Accrued income	7,780	3,378
Taxation recoverable	9,693	3,592
	182,883	133,199

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 and contracts of affreightment is receivable upon discharge of the vessel and hire from time charters is receivable prior to the commencement 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.$48.35 million (2006 – U.S$29.847 million) of amounts due from charterers are neither past due nor impaired.

Included in the group's amounts due from charterers are debtors with a carrying amount of U.S.$18.236 million (2006 – U.S.$23.365 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:

	2007 U.S.$'000	2006 U.S.$'000
Up to one month	6,029	12,171
One to two months	92	3,856
Two to three months	7,409	1,800
Three to four months	727	1,297
More than four months	3,979	4,241
	18,236	23,365

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

Movement in the allowance for doubtful debts

	2007 U.S.$'000	2006 U.S.$'000
Balance at the beginning of the period	3,926	4,184
Acquired on acquisition of Marpetrol (note 29)	-	920
Amounts written off during the period	(1,842)	(589)
Amounts recovered during the period and recognised in the income statement	(179)	(1,072)
Increase in allowance recognised in the income statement	755	434
Exchange adjustment	49	49
	2,709	3,926

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 2007, amounts due from charterers included one charterer with a balance of freight and hire due representing 13% 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.

Included within casualty and other claims is an amount of U.S.$19.7 million relating to the grounding of the m/v "SCF Tomsk" off the coast of the Dominican Republic on 29th October 2007, and an amount of U.S.$9.9 million (2006 – U.S.$6 million) representing legal costs connected with the claims described in note 34. In the opinion of the directors the above balances will be recovered in the foreseeable future.

Other debtors as at 31st December 2007 included an amount of U.S.$13.9 million (2006 – U.S.$13.3 million) held as security by the American Courts in relation to the arrest of one of the group's vessels in the United States.

19. **Trade and Other Payables**

	2007 U.S.$'000	2006 U.S.$'000
Trade creditors	55,997	62,431
Other creditors and accruals	79,712	40,137
Accrued interest	11,541	12,880
Taxation payable	7,560	3,941
Deferred income	38,967	34,576
	193,777	153,965

20. **Secured Loans**

The balances of the loans at 31st December 2007 are summarised as follows:

	2007 U.S.$'000	2006 U.S.$'000
Repayable:		
- within twelve months of the balance sheet date	151,871	179,918
- between one to two years	198,036	167,751
- between two to three years	149,569	215,707
- between three to four years	143,969	235,459
- between four to five years	145,095	133,893
- after more than five years	1,466,313	1,131,775
	2,254,853	2,064,503
Less current portion	(151,871)	(179,918)
Long-term balance	2,102,982	1,884,585

20. **Secured Loans (Continued)**

The secured loans are repayable in quarterly instalments with final payments due between November 2009 and March 2021 at interest based on LIBOR plus margins ranging between 0.45% and 1.25% with a weighted average margin as at the end of the period of 0.7915%, except for loans of U.S.$111.5 million (2006 – U.S.$122.7 million) for which the interest rate had been fixed at 4.75% plus margins of 0.5% or 0.75% depending on the employment of the vessels mortgaged, until July 2018.

The group has the option to repay in whole or any part of the loans on the last date of each monthly, quarterly or semi-annual interest period or such longer interest period as the lenders may agree.

As security for the loans, the lenders have first preferred mortgages on group vessels with an aggregate book value at 31st December 2007 of U.S.$3,333 million (2006 – U.S.$2,999 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in note 9 and pledges of shares in certain of the vessel owning companies.

Bank balances include approximately U.S.$25.925 million (2006 – U.S.$17.135 million) secured under loan agreements or other facilities provided by the group's bankers including an amount of U.S.$9 million (2006 – U.S.$4.4 million) held as counter security for the claims filed in London referred to in note 34. An additional U.S.$19.965 million is restricted against a future payment to a shipyard relating to a vessel which was under construction at the balance sheet date.

21. **Finance Lease Liabilities**

	2007 U.S.$'000	2006 U.S.$'000
Repayable		
- within twelve months of the balance sheet date	1,300	1,360
- between one to five years inclusive	6,060	5,686
- after more than five years	11,288	12,960
	18,648	20,006
Less current portion	(1,300)	(1,360)
Long-term balance	17,348	18,646

The group, through the acquisition of Marpetrol in 2006, acquired the 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.

22. **Derivative Financial Instruments**

	2007 U.S.$'000	2006 U.S.$'000
(a) Hedging instruments	42,870	14,675
(b) Classified at fair value through profit or loss	7,902	3,155
	50,772	17,830

The use of financial derivatives is governed by the group's policies approved by the board of directors, which provide written 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.

Notes to the Consolidated Financial Statements – 31st December 2007 (Continued)

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

(a) Hedging instruments

	2007 U.S.$'000	2006 U.S.$'000
At 1st January 2007	14,675	1,184
Acquired on acquisition of Marpetrol (note 29)	-	(999)
Released during the period and credited to equity	(619)	(338)
Provided during the period and debited to equity	25,950	15,645
Provided for during the period and debited to the income statement	1,052	268
Terminated during the period	1,812	(1,085)
At 31st December 2007	42,870	14,675

The group entered into interest rate swap agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations. In addition to the interest rate swap agreements referred to in note 15, as of 31st December 2007 the group had the following interest rate swap agreements amortising in accordance with the initial repayment schedules of the relevant loans at fixed rates compared to U.S.$ three month LIBOR as follows:

Type of instrument	Notional amount 2006 U.S.$'000	Notional amount 2007 U.S.$'000	Fixed interest rate	Expiry date
Swap	29,063	-	3.3200%	28th September 2007
Swap	20,000	-	4.9000%	3rd December 2007
Swap	42,208	-	5.3700%	Terminated in 2007
Swap	42,212	-	5.4300%	Terminated in 2007
Swap	-	37,620	4.4700%	12th December 2016
Swap	90,546	293,517	5.7575%	1st March 2021
Swap	10,200	8,700	2.4300%	31st July 2008
Swap	6,215	5,120	2.8500%	22nd April 2008
Swap	7,602	6,391	2.9700%	6th May 2008
Swap	1,225	350	2.5400%	6th May 2008
Swap*	-	42,750	4.0350%	30th November 2016
Swap**	-	28,500	3.6500%	30th November 2016

* The swap bank has the option to terminate the swap on 25th November 2008
** The swap bank has the option to terminate the swap on 28th November 2008

Due to the cancellation of a shipbuilding contract, during 2007 part of an existing interest rate swap agreement was no longer considered to be effective for hedge accounting purposes. The amount of U.S.$2.5 million was transferred from equity and debited to the income statement. In addition, on 15th May 2007 the group terminated two interest rate swap agreements previously considered as effective realising a gain of U.S.$1.8 million.

The net loss in hedging instruments written off to the income statement is analysed as follows:

	2007 U.S.$'000	2006 U.S.$'000
Movement in ineffective hedges	1,052	268
Transferred from equity on termination	(1,812)	1,085
Transferred from equity on becoming ineffective	2,574	-
	1,814	1,353

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

(b) Classified at fair value through profit or loss

	2007 U.S.$'000	2006 U.S.$'000
At 1st January 2007	3,155	1,718
Premiums received during the period	760	1,220
Provided for during the period and debited to the income statement	4,654	2,421
Premiums released on instruments terminated during the period and credited to the income statement	(222)	(1,996)
Terminated during the period	(445)	(208)
At 31st December 2007	7,902	3,155

The fair value of the derivative financial instruments held for trading through profit or loss is analysed as follows:

	2007 U.S.$'000	2006 U.S.$'000
Interest rate	7,970	2,693
Bunker price	-	462
Currency rate	(68)	-
At 31st December 2007	7,902	3,155

In addition to the interest rate swaps designated as hedging instruments, as at 31st December 2007 the group had the following interest rate financial instruments:

Type of instrument	Notional amount 2006 U.S.$'000	Notional amount 2007 U.S.$'000	Interest date	Expiry date
Collar and sold Cap	50,000	50,000	4.50%/5.90% and 6.78%	16th June 2011
Collar and knock out	50,000	50,000	4.10%/5.90% and 7.00%	1st July 2011
Callable	-	50,000	4.30%	22nd October 2010
Callable	-	50,000	3.65%	29th November 2010
Swaption	50,000	-	4.65%	Terminated in 2007
Swaption	50,000	50,000	4.65%	24th June 2013
Swaption	50,000	50,000	4.60%	30th December 2013
Swaption	-	50,000	4.40%	24th December 2013

The group also uses derivative financial instruments to partly manage its exposure to changes in foreign exchange rates. At the balance sheet date these derivatives were not designated as hedging instruments and were recorded as trading through profit or loss.

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 2007 would increase / decrease by approximately U.S.$6 million and U.S.$13 million respectively due to the change in the fair value of the derivative financial instruments held for trading through profit or loss.

The following exchange rate derivatives were held by the group at 31st December 2007:

Type of instrument	Notional amount	Strike/Barrier	Expiry date
Forward	€100,000/weekly	1.350/1.405	17th July 2008
Forward	€100,000/monthly	1.992/1.900	20th August 2008
Option	€100,000/monthly	1.378/1.353	17th July 2008

The group also uses derivative financial instruments to offset the price risk associated with bunkers. As at 31st December 2007 the group did not hold any bunker price derivative financial instruments.

Notes to the Consolidated Financial Statements – 31st December 2007
(Continued)

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

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

At 31st December 2006 the group held the following instruments which were not designated as hedging instruments and were recorded as trading through profit or loss.

Type of instrument	Notional amount	Floor/Ceiling and Cap	Expiry date
Collar and sold Cap	12 x 1,000 t/month	$/t 280/325 and 348.5	30th June 2007
Collar and sold Cap	10 x 1,000 t/month	$/t 290/325 and 350.0	30th May 2007
Swap	12 x 1,000 t/month	$/t 294.5	31st December 2007

The net loss in financial instruments classified at fair value through profit or loss written off to the income statement is analysed as follows:

	2007 U.S.$'000	2006 U.S.$'000
Movement in interest rate instruments	5,499	1,959
Movement in bunker price instruments	(777)	462
Movement in currency rate instruments	(68)	-
Premiums received released on termination	(222)	(1,996)
	4,432	425

Derivative financial instruments are classified in the balance sheet as follows:

	2007 U.S.$'000	2006 U.S.$'000
Non-current asset	(178)	(3,761)
Current asset	(387)	(2,302)
Non-current liability	37,569	20,046
Current liability	13,768	3,847
	50,772	17,830

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

23. **Issued Capital**

	2007 U.S.$'000	2006 U.S.$'000
Authorised, issued and fully paid 1,966,697,210 shares of 1 Rouble each (2006 – 1,364,538,517 shares of 1 Rouble each)	405,012	380,407

	Number of shares	Share capital U.S.$'000	Share premium U.S.$'000
Balance at 1 January 2006 and 1 January 2007	1,364,538,517	380,407	-
Issue of shares in exchange for shares in JSC Novoship (note 1)	602,158,693	24,605	818,845
Balance at 31st December 2007	1,966,697,210	405,012	818,845

24. Group Reconstruction Reserve

	2007 U.S.$'000	2006 U.S.$'000
Surplus arising on group reconstruction	8,960	8,960
Shares issued by JSC Sovcomflot in exchange for shares in JSC Novoship (note 23)	(843,450)	-
	(834,490)	8,960

25. Income Taxes

	2007 U.S.$'000	2006 U.S.$'000
Russian Federation profits tax	26,724	8,116
Overseas taxes		
- Income tax	407	572
- Tonnage tax	633	561
- Withholding tax on interest receivable	95	169
Adjustments recognised in the current year in relation to the income tax of prior years (Russian Federation profit tax)	(326)	(353)
Income tax expense	27,533	9,065
Deferred tax	(4,415)	(98)
Total tax expense	23,118	8,967

Under the laws of the countries of incorporation and / or vessels' registration, a limited number of vessel owning and operating subsidiaries are subject to tax on international shipping 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 Marpetrol applied to the Spanish Tax authorities to be taxed in accordance with the Spanish Tonnage tax special regime, which establishes the payment of taxes based on the net tonnage of the vessels.

Russian Federation profits tax is payable in Roubles at an effective rate of 24% (2006 – 24%) on the profits arising on Russian operations, as adjusted for Russian fiscal purposes. Taxation is also payable on the results of the group's overseas management, agency and broking subsidiaries. The liability to taxation of the other subsidiaries is insignificant.

The Russian Federation profits tax is computed as follows:

	2007 U.S.$'000	2006 U.S.$'000
Profit before income taxes	493,959	369,009
Profits taxable in other tax jurisdictions	(372,549)	(345,609)
Russian accounting profit before income taxes	121,410	23,400
Income tax using Russian Federation income tax rate of 24%	29,138	5,616
Tax effect of tax disallowable expenses	4,558	3,629
Difference in tax rate of dividends received	(6,972)	(1,129)
Adjustments recognised in the current year in relation to the income tax of prior years (Russian Federation profit tax)	(326)	(353)
Overseas taxes	1,135	1,302
Income tax expense	27,533	9,065

25. **Income Taxes (Continued)**

Deferred Tax

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

	Opening balance U.S.$'000	(Credited) / Charged to income U.S.$'000	Exchange differences U.S.$'000	Closing balance U.S.$'000
Deferred tax assets	5,928	(4,312)	425	2,041
Deferred tax liabilities	(41,090)	8,727	(1,174)	(33,537)
	(35,162)	4,415	(749)	(31,496)

Deferred tax assets / (liabilities) arise from the following:

	Opening balance U.S.$'000	(Credited) / charged to income U.S.$'000	Exchange differences U.S.$'000	Closing balance U.S.$'000
Fleet	(30,575)	7,612	6	(22,957)
Drydock	(2,064)	82	(238)	(2,220)
Finance leases	1,882	(866)	162	1,178
Bank loans	(4,592)	100	(562)	(5,054)
Hedging instruments	(266)	182	(20)	(104)
Pensions	504	(68)	54	490
Provisions	139	(149)	10	-
Other	131	(68)	(14)	49
Gains on disposal of assets reinvested	(3,084)	532	(326)	(2,878)
Unused tax losses	2,763	(2,942)	179	-
	(35,162)	4,415	(749)	(31,496)

On 7th February 2008 nine out of twelve vessels owned by Marpetrol and its subsidiaries were admitted into the Spanish tonnage tax special regime for a period of ten years, effective 1st January 2008. It is the intention of management to extend the registration under the regime on expiry. Consequently net deferred tax liabilities of approximately U.S.$8.8 million will be released to the income statement in 2008.

Non-income based taxes

	2007 U.S.$'000	2006 U.S.$'000
Russian Federation taxes		
- Irrecoverable value added tax	2,851	4,789
- Payroll taxes	2,316	868
- Property tax	1,900	1,570
Overseas payroll taxes	1,562	993
Non-income based taxes	8,629	8,220

26. **Administration Expenses**

	2007 U.S.$'000	2006 U.S.$'000
Head office costs	21,824	15,615
Russian offices costs	3,202	4,460
Overseas offices costs and other general expenses	37,772	31,085
Legal and professional fees	9,247	5,091
Audit and accountancy fees	1,271	907
	73,316	57,158

26. Administration Expenses (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management, including compensation of key management personnel of JSC Novoship, was as follows:

	2007 U.S.$'000	2006 U.S.$'000
Short-term benefits	8,483	6,084
Termination benefits	358	-
	8,841	6,084

27. Dividends

Total dividends of Roubles 483.182 million, equivalent to U.S.$18.988 million (2006 – Roubles 326.144 million, equivalent to U.S.$12.148 million) were declared and paid during the year to the Federal Agency.

As the Federal Agency transferred its shareholding in JSC Novoship to the company on 5th December 2007, and these financial statements have been prepared on a pooling of interests basis, dividends disclosed in these financial statements reflect amounts paid by JSC Sovcomflot and JSC Novoship.

JSC Sovcomflot

Dividends of Roubles 256.123 million (Roubles 0.19 per share), equivalent to U.S.$9.921 million (2006 – Roubles 200 million (Roubles 0.15 per share), equivalent to U.S.$7.396 million) were declared on 30th June 2007 and paid on 10th July 2007, representing 100% (2006 – 62%) of the company's undistributed profits for the preceding year, as computed under Russian accounting regulations.

JSC Novoship

Dividends of Roubles 341.547 million (Roubles 0.9 per share), equivalent to U.S.$13.639 million (2006 – Roubles 189.748 million (Roubles 0.5 per share), equivalent to U.S.$7.148 million) on both ordinary and preference shares were declared on 9th June 2007 and paid from the undistributed profits for the preceding years, as computed under Russian accounting regulations.

28 Acquisition of Associate

On 9th April 2007 the group acquired 49% of the ordinary share capital of Closed Joint Stock Company "Rosnefteflot", incorporated under the Laws of the Russian Federation. The fair values of the 49% interest in the assets and liabilities acquired were as follows:

	Book Value U.S.$'000	Fair value adjustment U.S.$'000	Fair value on acquisition U.S.$'000
Tangible fixed assets	7,029	626	7,655
Cash and cash equivalents	441	-	441
Inventories	86	-	86
Deferred tax	370	(147)	223
Taxation recoverable	503	-	503
Accounts receivable	1,782	(13)	1,769
Finance lease liabilities	(7,627)	-	(7,627)
Accounts payable	(1,048)	-	(1,048)
Taxation payable	(196)	-	(196)
	1,340	466	1,806
Goodwill on acquisition			1,894
Total purchase consideration satisfied by cash			3,700

29. Acquisition of Subsidiary

On 2nd August 2006 the group acquired the entire share capital in Marpetrol. The fair values of the interest in the assets and liabilities acquired were as follows:

	Book Value U.S.$'000	Fair value adjustment U.S.$'000	Fair value on acquisition U.S.$'000
Cash and cash equivalents	4,936	-	4,936
Fleet	182,340	63,278	245,618
Other fixed assets	98	-	98
Drydocking and special survey costs	3,384	-	3,384
Deferred tax assets	7,584	-	7,584
Hedging instruments	999	-	999
Accounts receivable	5,367	(920)	4,447
Accounts payable	(14,978)	(422)	(15,400)
Accrued interest	(822)	-	(822)
Deferred tax liabilities	(11,740)	(22,148)	(33,888)
Bank loans	(136,230)	-	(136,230)
Obligations under finance leases	(20,544)	-	(20,544)
	20,394	39,788	60,182
Goodwill on acquisition			9,006
Total purchase consideration satisfied by cash			69,188
Net cash outflow arising on acquisition			
Cash consideration paid			(69,188)
Cash and cash equivalents acquired			4,936
Net cash outflow arising on acquisition of Marpetrol			(64,252)

30. Disposals of Investments

(a) Subsidiary

During 2006 the group disposed of, to a third party, 40% of the shares in Sovcomflot Lines Limited at par value. The group also received from the third party an amount of U.S.$1.3 million as compensation for the group's efforts in developing the liner service between the ports of St. Petersburg in Russia and the port of Kiel in Germany, operated by Vestway Shipping Company Limited. This amount was included in the income statement in other income.

(b) Joint Venture

On 16th September 2006 the group disposed of 25% of its 50% shareholding in one of the joint ventures referred to in note 15.

The group's proportion of the assets and liabilities disposed of were as follows:

	2006 U.S.$'000
Total sale consideration – satisfied by cash	5,250
Net assets disposed of (tonnage under construction)	(4,000)
Profit on disposal of share in joint venture	1,250

31. Significant Subsidiary Companies

In addition to the joint ventures referred to in note 15, at 31st December 2007, the group had 116 single vessel owning and operating subsidiaries incorporated in Cyprus, Liberia, Malta and the Bahamas.

The most significant subsidiaries of the group comprised:

Name	Country of Incorporation	Percentage Holding	Activity
JSC Novoship	Russia	50.34%	Shipowning and operating and ship management
Sovcomflot (UK) Ltd	U.K.	100%	Agency
Fiona Trust and Holding Corporation and its subsidiaries	Liberia	100%	Vessel owning and operation
Sovcomflot Bulk Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
W.W. Marpetrol S.A and its subsidiaries	Spain	100%	Vessel owning and operation and ship management
Unicom Management Services (Cyprus) Limited	Cyprus	100%	Ship management
Intrigue Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
Novoship Holdings Limited and its subsidiaries	Cyprus	100%	Vessel owning and operation

32. Operating Lease Arrangements

The group has the following non-cancellable operating lease commitments in respect of vessels and office premises in London, Moscow and St. Petersburg:

	2007 U.S.$'000	2006 U.S.$'000
Within twelve months of the balance sheet date	17,829	3,602
Between one to five years	36,498	12,130
After more than five years	8,117	10,808
	62,444	26,540

33. Contingent Liabilities and Commitments

Contingent liabilities

Guarantees given by the group in connection with the joint ventures have been reported in note 15 of these financial statements.

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

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

33. Contingent Liabilities and Commitments (Continued)

Commitments

The group enters into short to medium-term time charters and voyage charters during its normal course of business. In addition to the time charter agreements referred to in notes 15 and 16(b), the group has entered into long-term time charters with aggregate hires receivable as at 31st December 2007 of U.S.$2.19 billion, expiring after more than five years which include various charterers' purchase, termination and extension options.

In addition to the guarantees obtained by the group from the shareholders of the State controlled entity referred to in note 35(iii), the group obtained guarantees from the shareholders of the charterers in respect of the performance of the obligations of the charterers under the time charter agreements referred to in note 16(b).

One of the group's vessels is employed on a sixteen year time charter expiring in November 2008 with aggregate charter hire receivable as at 31st December 2007 of €19.5 million, equivalent to U.S.$28.5 million.

In 2005 JSC Sovcomflot entered into a long-term non-cancellable operating lease agreement in respect of a preserved office building in St. Petersburg, Russian Federation. The lease term is for forty nine years expiring on 26th March 2055 at a nominal rent. Under the agreement, Sovcomflot has an obligation to renovate the building. The cost of construction work and furnishing is expected to be approximately U.S.$10 million of which U.S.$1.262 million had been contracted for by the period end. As at 31st December 2007 U.S.$0.735 million of the contracted costs had been paid for. Sovcomflot has the option to acquire the building at any time should enacted legislation in respect of preserved buildings change at a price to be agreed upon at the time. The construction work and furnishing is expected to be completed by the end of 2009.

During the year the group chartered in from a third party a Suezmax tanker for a period of 3 years, expiring in September 2010, with aggregate charter hire payable at 31st December 2007 of U.S.$38.4 million.

Details of the group's capital commitments in respect of newbuilding contracts are disclosed in note 9.

34. Contingent Asset

Following a review of the group's operations, in conjunction with the restructuring of the group's business, some irregularities were discovered including the sale of four subsidiary companies which owned shipbuilding contracts. During 2005, 2006 and 2007 the group filed claims in London for losses arising out of various transactions which were estimated as being in the region of U.S.$650 million.

35. Related Party Transactions

Related party transactions comprised:

(i) Included in tonnage under construction (note 9) are three newbuildings (2006 – four) with a total contracted cost of U.S.$291 million (2006 – U.S.$331.5 million) placed on order from a State controlled shipyard in 2006. As at 31st December 2007 instalments of U.S.$201.7 million (2006 – U.S.$261.2 million) were outstanding in respect of the shipbuilding agreements.

(ii) Bank balances include U.S.$61.2 million (2006 – U.S.$45.7 million) held with State controlled banks. Interest received on those accounts during the period amounted to U.S.$3.62 million (2006 – U.S.$3.3 million).

(iii) Included in the long term time charters, with aggregate hires receivable of U.S.$2.13 billion, referred to in note 33 above, are two agreements entered into with a State controlled entity with aggregate hires receivable of U.S.$984 million. The charters are for 25 years and are expected to commence during 2009. The group has obtained guarantees from the State controlled shareholders of the charterers in respect of the performance of the obligations of the charterers under the time charter agreements.

(iv) The time charter agreements referred to in note 15, with aggregate time charter hire receivable of U.S.$1.7 billion, included two agreements entered into by the joint ventures with a subsidiary of a State controlled entity with aggregate hires receivable over the firm period of the charters of U.S.$867 million. The charters are for 20 years commencing in October 2007 and January 2008. Under the agreements the charterers have the option to purchase the vessels as explained in note 15.

35. **Related Party Transactions (Continued)**

(v) On 9th April 2007 the group acquired, from a State controlled entity, 49% of the ordinary share capital of Closed Joint Stock Company "Rosnefteflot", a technical manager of off-shore maritime projects and port fleet operator, incorporated under the Laws of the Russian Federation, for a total purchase consideration of U.S.$3.7 million. The company has been accounted for as an associate in these financial statements (note 14).

(vi) On 1st June 2007 JSC Sovcomflot signed a lease agreement with Rosnefteflot to lease out part of the premises owned by JSC Sovcomflot located at 7 Dunayevskogo Street, Moscow 121165, Russian Federation. The lease term is for eleven months commencing on 1st June 2007 at a lease rental for the period of Roubles 16.552 million (equivalent to U.S.$0.650 million).

(vii) Delivery of two Escort tugs on bareboat charter to an associated undertaking for a period of 15 years as explained in note 9.

(viii) The group also receives services from State controlled bodies at prices comparable with other similar organisations, the total amounts of which are not material.

36. **Post Balance Sheet Events**

One Aframax tanker the m/v “NS Lotus”, one 145,000 CBM LNG carrier, the m/v “Grand Aniva”, referred to in note 15, and one Arctic Shuttle tanker the m/v “Vasily Dinkov”, were delivered to the group for their intended use on 2nd January , 4th January and 19th March 2008 respectively.

The m/v “Vladimir Kokkinaki” was sold on 28th January 2008 and delivered to her new owner on 20th February 2008.

On 10th January 2008 JSC Sovcomflot launched a public offer to acquire the 9.66% (36,301,145 shares) of the ordinary shares in JSC Novoship owned by minority shareholders at a price of Roubles 81.82 per share, in a total amount of Roubles 2,971 million (equivalent to U.S.$121 million). In accordance with the terms of the mandatory public offer minority shareholders have 70 days from the date of the launch of the public offer to decide whether of not to accept the offer. By 19th March 2008 holders of 24,325,688 shares representing 6.47% of ordinary shares in JSC Novoship had accepted the offer. The minorities have until 3rd April 2008 to transfer the shares to Sovcomflot. Should all 24,325,688 shares be transferred to Sovcomflot it will result in a total cash outlay of Roubles 1,990 million (equivalent to U.S.$81.11 million). The obligations of the company under the public offer have been guaranteed by a State controlled bank.

In addition to the counter security of U.S.$9 million, disclosed in note 20, for claims filed in London, referred to in note 34, on 31st January 2008 the group granted further security for costs in the amount of U.S.$13.4 million in the form of a guarantee provided by group bankers. A corresponding amount has been secured by the bank from group bank balances.

Subsequent to the period end the group entered into time charter agreements for the chartering in of two product carriers, for a period of two years expiring in July 2010 and February 2011, with aggregate charter hires payable at the date of their delivery to the group of U.S.$49.1 million. On expiry of the time charter agreements, the group has the option to purchase the vessels.

On 28th March 2008, the group entered into contracts for the construction of two Aframax tankers at a total contracted cost of U.S.$158.5 million, scheduled for delivery in July and October 2010.

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GLOSSARY

The following terms used in this Prospectus have the meanings assigned to them below:

Aframax	Aframax oil tankers are generally between 80,000 DWT and 119,999 DWT and have carrying capacities of between 600,000 and 750,000 barrels of crude oil. The term is based on the Average Freight Rate Assessment tanker rate system developed by Shell Oil in 1954. Aframax tankers are the largest ship under that classification system. Aframax tankers are largely used in the basins of the Black Sea, the North Sea, the Caribbean Sea, the China Sea and the Mediterranean.
Bareboat charter	A bareboat charter is an arrangement for the hiring of a boat, whereby no crew or provisions are included as part of the agreement but rather the persons who rent the boat from the owner are responsible for taking care of such things.
Bulk cargo carrier	A bulk carrier, bulk freighter or bulker is a merchant ship designed especially to transport unpackaged bulk cargo, such as grain, coal, ore and cement in its cargo holds.
Capesize	Capesize is a naval architecture term for vessels that were originally too large to transit the Suez Canal (*i.e.*, larger than both Panamax and Suezmax vessels). To travel between oceans, such vessels used to have to pass either the Cape of Good Hope or Cape Horn, although they can now transit the Suez Canal provided they meet the draft restriction.
Chemical carrier	A chemical carrier or chemical tanker is a type of tanker designed to transport chemicals in bulk. Ocean-going chemical tankers generally range from 5,000 DWT to 40,000 DWT, which is considerably smaller than the average size of other tanker types, due to the specialized nature of their cargoes and the size restrictions of the port terminals where they call.
Contract of affreightment	A series of spot charters for a vessel operator to carry a specified quantity of cargo over a given period of time, using vessels as determined by the vessel operator.
Crude oil tanker	A crude oil tanker or crude oil carrier move large quantities of unrefined crude oil from its point of extraction to refineries.
DP	Dynamic positioning is a computer controlled system to automatically maintain a vessel's position and heading by using its own propellers and thrusters.
Dry cargo carrier	A cargo ship or freighter that carries cargo other than liquid cargo or cargo requiring temperature control.
DWT	Deadweight tonnage is the displacement at any loaded condition minus the lightship weight. It includes the crew, passengers, cargo, fuel, water, and stores.
Escort tug	A specially designed tug with considerable power to minimize the risks associated with tankers losing power or steering while transiting confined waters.
FPSO	Floating production, storage and offloading unit.
FSO	Floating storage and offloading unit.
Handymax	Although there is no official definition in terms of exact tonnages, Handysize typically refers to a dry bulk vessel (or, less commonly, to a product tanker) ranging from 40,000 DWT to 59,999 DWT.

Handysize	Although there is no official definition in terms of exact tonnages, Handysize typically refers to a dry bulk vessel (or, less commonly, to a product tanker) ranging from 10,000 DWT to 39,999 DWT.
Heavy fuel oil	Fuel oil is classified into six classes, numbered 1 through 6, according to its boiling point, composition and purpose. Number 5 fuel oil and Number 6 fuel oil, the remainder of the crude oil after gasoline and the distillate fuel oils are extracted through distillation, are called heavy fuel oils.
Ice-class	Ice-class vessels have a strengthened hull to enable them to navigate through sea ice.
Ice breaking supply vessel	Ice breaking supply vessels are designed for operation in cold and icy water environments. The tasks of ice breaking supply vessels are the supply of offshore platforms, drilling rigs and vessels with stores, materials and equipment according to a buyer's specifications, ice breaking, early stage fire fighting and rescue operations and the provision of standby services to offshore installations.
LNG	Liquefied natural gas.
LNG carrier	An LNG carrier is a tanker ship designed for transporting LNG.
LPG	Liquefied petroleum gas.
LPG carrier	An LPG carrier is a tanker ship designed for transporting LPG.
LR1	Long range product tankers 1 are generally between 60,000 DWT and 94,999 DWT and have cubic carrying capacities of approximately 55,000 metric tons of naphtha.
LR2	Long range product tankers 2 are generally between 95,000 DWT and 120,000 DWT and have cubic carrying capacities of approximately 75,000 metric tons of naphtha.
LRIT	Long range identification and tracking.
MR1	Medium range product tankers 1 are generally between 25,000 DWT and 44,999 DWT and have cubic carrying capacities of approximately 22,000-30,000 metric tons of gasoline.
MR2	Medium range product tankers 2 are generally between 45,000 DWT and 59,999 DWT and have cubic carrying capacities of approximately 37,000 metric tons of gasoline and gas oil.
Off-hire	The time during which a vessel is not available for service.
Oil tanker	An oil tanker, also known as a petroleum tanker, is a ship designed for the bulk transport of oil. There are two basic types of oil tankers: the crude oil tanker and the oil product tanker. Crude oil tankers move large quantities of unrefined crude oil from its point of extraction to refineries. Oil product tankers, which are generally much smaller than crude oil tankers, are designed to move oil products from refineries to points near consuming markets.
Panamax	Panamax is a naval architecture term for the largest ships capable of transiting the Panama Canal fully loaded. The allowable size is limited by the width and length of the available lock chambers, by the depth of the water in the canal and by the height of the Bridge of the Americas.

Product tanker	A product tanker or product carrier generally much smaller, are designed to move petrochemicals from refineries to points near consuming markets.
Shuttle tanker	Vessels designed to transport crude oil and condensates from offshore oil field installations, such as fixed offshore terminals, FSOs or FPSOs, to onshore terminals and refineries.
Spot charter	A charter in which the charterer pays for the use of a vessel's cargo capacity for one, or sometimes more than one, voyage between specified ports. Under this type of charter, the shipowner pays all the operating costs of the vessel, including bunker fuel, canal and port charges, pilotage, towage and vessel's agency.
Suezmax	Suezmax is a naval architecture term for the largest ships capable of transiting the Suez Canal fully loaded, and is almost exclusively used in reference to tankers.
Super ice-class	In the Finnish-Swedish ice-class rules, merchant ships operating in the Baltic Sea are divided into six ice classes, based on requirements for hull structural design, engine output and performance in ice. Vessels of the highest ice class, 1A Super, can operate in difficult ice conditions, mainly without icebreaker assistance, and their design requirement is equivalent to a minimum speed of 5 knots in brash ice channels with a thickness of 1 meter in the middle and a consolidated ice layer of 0.1 meters. Ice classes 1A, 1B and 1C have lower design requirements and ships of these ice classes usually rely on icebreaker assistance.
Supply vessel	These ships range from 65 to 350 feet in length and accomplish a variety of tasks. The primary function for most of these vessels is the transportation of goods and personnel to and from offshore oil platforms and other offshore structures.
Time-charter contract	A type of contract under which the charterer pays for the use of a vessel's cargo capacity for a specified period of time. The shipowner provides the vessel with crew, stores and provisions, ready in all aspects to load cargo and proceed on a voyage as directed by the charterer. The charterer typically pays for bunkering and all voyage-related expenses, including canal tolls and port charges.
Tug	A tug is a boat that maneuvers vessels by pushing or towing them. They can also be used to extinguish fires.
VLCC	Very-large crude carriers are a sub-sector of the Capesize vessel class, and are generally between 200,000 DWT and 320,000 DWT and have carrying capacities of approximately two million barrels or more of crude oil.
Voyage days	The total days the Group's vessels are in the Group's possession for the relevant period, net of off-hire days associated with major repairs, drydockings or special or intermediate surveys.

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