JSC "Novoship"
and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2006

Contents

KPMG Limited
11 Gogolevsky Boulevard
Moscow 119019
Russia

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

Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of JSC "Novoship" and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Limited.

KPMG Limited
20 April 2007

(In Thousands of United States Dollars)	Note	As at 31 December 2006	As at 31 December 2005 Restated
ASSETS			
Vessels and other property, plant and equipment	8	1,514,804	1,041,439
Assets in the course of construction	8	255,734	318,315
Investments		1,820	353
Goodwill	25	5,275	-
Total non-current assets		**1,777,633**	**1,360,107**
Assets held for sale	8	36,197	-
Inventories	9	12,544	6,645
Trade and other receivables	10	49,906	34,240
Investments	11	48,390	50,832
Cash and bank balances	12	74,186	87,828
Total current assets		**221,223**	**179,545**
Total assets		**1,998,856**	**1,539,652**
SHAREHOLDERS' EQUITY	13		
Share capital		17,795	17,795
Treasury shares		(4,316)	(4,316)
Foreign currency translation reserve		448	(199)
Other reserves		423	(3,502)
Retained earnings		1,063,494	889,622
Total shareholders' equity		**1,077,844**	**899,400**
LIABILITIES			
Long-term debt	14	731,084	529,514
Finance lease liabilities	15	9,323	-
Deferred tax liabilities	16	23,519	8,738
Other non-current liabilities		1,925	-
Non-current liabilities		**765,851**	**538,252**
Trade and other payables	17	63,872	37,440
Current portion of long-term debt	14	90,609	64,560
Current portion of finance lease liabilities	15	680	-
Current liabilities		**155,161**	**102,000**
Total liabilities		**921,012**	**640,252**
Total shareholders' equity and liabilities		**1,998,856**	**1,539,652**

Approved by the Management Board on 19 APRIL 2007
and signed on its behalf by the President, Terekhin S.A. ____________

The notes on pages 8 to 31 form an integral part of these consolidated financial statements.

(In Thousands of United States Dollars)	Note	2006	2005
Revenues		560,980	432,738
Voyage expenses	18	(125,856)	(82,700)
Direct vessel expenses	19	(102,619)	(84,517)
General and administrative expenses	20	(22,098)	(22,823)
Non-fleet operating profit		1,970	1,578
Operating profit before depreciation and disposal of assets		312,377	244,276
Depreciation expense	8	(83,767)	(72,857)
Profit on disposal of subsidiaries		-	67,167
Profit on disposal of fixed assets		328	56,528
Operating profit		228,938	295,114
Taxes, other than on profit		(5,305)	(1,305)
Financial income	21	10,273	5,128
Financial expenses	22	(47,326)	(35,352)
Investments (loss)/profit		(1,378)	1,148
Other income/(expense)		4,685	(3,755)
Profit before tax		189,887	260,978
Taxation	23	(8,867)	(16,408)
Net profit for the year		**181,020**	**244,570**

The notes on pages 8 to 31 form an integral part of these consolidated financial statements.

(In Thousands of United States Dollars)	Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings	Fair value reserve	Hedging reserve	Total
Balance at 31 December 2004	**17,795**	**(1,257)**	**-**	**802,036**	**-**	**(12,367)**	**806,207**
Changes in fair value of hedging instruments	-	-	-	-	-	8,865	8,865
Purchase of treasury shares	-	(3,103)	-	(154,696)	-	-	(157,799)
Sale of treasury shares	-	44	-	1,221	-	-	1,265
Dividends	-	-	-	(3,509)	-	-	(3,509)
Translation differences	-	-	(199)	-	-	-	(199)
Net profit for the year	-	-		244,570	-	-	244,570
Balance at 31 December 2005	**17,795**	**(4,316)**	**(199)**	**889,622**	**-**	**(3,502)**	**899,400**
Release of hedging resevre on maturity	-	-	-	-	-	3,502	3,502
Net change in fair value of available-for-sale financial assets	-	-	-	-	423	-	423
Dividends	-	-	-	(7,148)	-	-	(7,148)
Foreign currency translation differences	-	-	647	-	-	-	647
Net profit for the year	-	-	-	181,020	-	-	181,020
Balance at 31 December 2006	**17,795**	**(4,316)**	**448**	**1,063,494**	**423**	**-**	**1,077,844**

The notes on pages 8 to 31 form an integral part of these consolidated financial statements.

(In Thousands of United States Dollars)	31 December 2006	31 December 2005 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	189,887	260,978
Adjustments for:		
Depreciation expense	83,767	72,857
Profit on disposal of fixed assets	(328)	(56,528)
Profit on disposal of subsidiaries	-	(67,167)
Interest expense	44,737	32,154
Interest income	(7,106)	(5,128)
Financial expenditure	2,589	1,226
Investments loss/(profit)	1,378	(1,148)
Russian non-profit-based taxes	5,305	1,305
Other (income)/expense	(4,685)	3,755
Cash flow from operating activities before changes in working capital and taxes paid	**315,544**	**242,304**
Net (increase)/decrease in trade and other receivables	(17,708)	4,328
Net (increase)/decrease in inventories	(5,899)	104
Net increase/(decrease) in current liabilities	20,012	(1,707)
Income taxes paid	(4,435)	(23,941)
Other taxes paid	(4,977)	(5,544)
Net cash inflow from operating activities	**302,537**	**215,544**
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditure on fleet	(367,473)	(356,758)
Dry-docking expenses capitalised	(22,128)	(17,113)
Expenditure on other fixed assets	(8,705)	(7,274)
Proceeds from sales of vessels	878	173,168
Acquisition of Marpetrol, net of cash acquired	(32,165)	-
Acquisition of investments	(2,122)	(9,025)
Proceed from sale of other fixed assets	195	1,781
Loan issued	(101)	-
Repayment of finance lease liabilities	(274)	-
(Increase)/decrease in deposits	4,995	(4,208)
Net cash utilised by investing activities	**(426,900)**	**(219,429)**

The notes on pages 8 to 31 form an integral part of these consolidated financial statements.

(In Thousands of United States Dollars)	31 December 2006	31 December 2005 Restated
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowing	457,900	209,308
Repayment of long-term borrowing	(300,646)	(182,103)
Dividends paid	(6,856)	(3,448)
Interest received	7,002	5,128
Other borrowing costs paid	(2,441)	(1,161)
Interest paid	(44,238)	(30,548)
Net cash from/(utilised by) financing activities	**110,721**	**(2,824)**
Net decrease in cash and cash equivalents	**(13,642)**	**(6,709)**
Cash and cash equivalents at beginning of year	**87,828**	**94,537**
Cash and cash equivalents at end of year	**74,186**	**87,828**

The notes on pages 8 to 31 form an integral part of these consolidated financial statements.

1. GENERAL

Organisation and Operations

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

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

The Group's principal activity is ship owning and operating businesses.

Operations of the Group are closely connected with Novoship Holdings Limited, incorporated in Cyprus in 2006 (the "Fellow Company") and its subsidiaries (together with the Fellow Company the "Fellow Group").

Russian Business environment

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

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

Use of judgements, estimates and assumptions

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

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

- Note 8 - Impairment of property, plant and equipment;

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Basis of consolidation

Subsidiaries

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

Joint venture

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

Transactions eliminated on consolidation

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

3.2. Foreign currency

Foreign currency transactions

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

Foreign operations

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

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

3.3. Financial instruments

Non-derivative financial instruments

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

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

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

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Investments at fair value through profit or loss

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

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

Derivative financial instruments

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

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

Subsequent to initial recognition, changes in the fair value of derivative instruments designated as a cashflow hedge are recognised directly in equity to the extent that the hedge is effective. If the hedge instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discounted prospectively. The cumulative gain or loss previously recognised in equity is transferred to the income statement in the same period that the hedged item affects the income statement.

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

3.4. Cash and bank balances

Cash and cash equivalents comprise cash balances and bank deposits with a maturity of less than 3 months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

3.5. Share capital

Ordinary shares

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

Preference share capital

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

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

Repurchase of share capital

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

3.6. Vessels and other property, plant and equipment

Recognition and measurement

The Group's fleet and other property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

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

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

Subsequent costs

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

Depreciation

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

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

The useful lifes of the assets are as follows:

• Vessels	20 to 25 years
• Dry-docking costs	3 to 5 years
• Buildings	15 to 40 years
• Machinery and equipment	5 to 15 years
• Fixtures and fittings	5 to 15 years

The residual value and useful life of each asset is reviewed at each financial period-end and, if expectations differ from previous estimates, the changes are accounted for prospectively in the income statement in the period of the change and future periods. The residual values of vessels are calculated based on the market value of scrap steel. As at the balance sheet date, the residual values of the vessels were determined applying scrap values of $420 per lightweight ton (31 December 2005: $305 per lightweight ton).

3.7. Goodwill

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

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

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

3.8. Leased assets

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

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

3.9. Inventories

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

3.10. Impairment

Financial assets

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

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

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

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

Reversal of impairment

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

Non-financial assets

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

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

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

3.11. Employee benefits

Defined contribution plans

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

Short-term benefits

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

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

3.12. Provisions

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

3.13. Revenue

Voyage revenue

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

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

Other revenue

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

3.14. Voyage expenses and direct vessel expenses

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

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

3.15. Other expenses

Lease payments

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

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

Social expenditure

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

Financial income and expenses

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

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

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

Income tax expense

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the presentation of financial information in the consolidated financial statements.

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital. The new Standard will not have any impact on the Group's financial position or performance.

5. RESTATEMENT OF PRIOR PERIODS

Change in presentation of deposits with maturity more than 3 months

In prior years all current bank deposits were recorded within "Cash and bank balances" in the balance sheet. In accordance with the Company's accounting policy and IAS 7 *Cash Flow Statements*, only deposits with maturity less than 3 months should be recognized as cash equivalents. This error has been corrected retrospectively by reclassifying deposits with a maturity of more than three months in the amount of $50,466 thousand to "Current investments" as of 31 December 2005. The cash flow statement for 2005 has been restated by recording the cash outflow from deposits in the amount of $4,208 thousand in the "Investing activities" section of the cash flow statement.

6. RECLASSIFICATIONS

Change in presentation of the gain on disposal of assets in the income statement

In prior periods gain on disposal of tangible fixed assets and subsidiaries was recognized below "Operating profit" line of the income statement. In 2006 the Company changed presentation by recording such gains within operating activities, since it results in more relevant and reliable presentation. The reclassification resulted in an increase of "Operating profit" by $123,695 thousand and $328 thousand for the years ended 31 December 2005 and 2006, respectively.

7. SIGNIFICANT SUBSIDIARIES

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

8. VESSELS AND OTHER PROPERTY, PLANT AND EQUIPMENT

(In Thousands of United States Dollars)	Vessels	Capitalised dry-docking	Land	Building	Plant and equipment	Total
Cost						
Cost at 1 January 2005	1,289,107	76,921	1,517	34,105	34,174	1,435,824
Additions	64,173	17,113	869	22	616	82,793
Fully depreciated dry docking costs	-	(20,457)	-	-	-	(20,457)
Transfers from assets under construction	207,082	6,800	-	1,091	1,178	216,151
Disposals	(214,643)	(13,795)	-	(2,280)	(3,225)	(233,943)
Cost at 31 December 2005	1,345,719	66,582	2,386	32,938	32,743	1,480,368
Additions	3,411	22,128	-	-	258	25,797
Acquisitions by joint venture (refer Note 24)	122,808	1,692	-	-	49	124,549
Eliminated of fully depreciated dry docking costs	-	(29,635)	-	-	-	(29,635)
Transfers from assets under construction	424,390	11,000	-	1,840	2,815	440,045
Disposal of assets	(1,036)	-	-	(338)	(1,304)	(2,678)
Transfer to assets held for sale	(77,449)	(5,858)	-	-	-	(83,307)
Effect of movements in exchange rates	3,418	267	-	-	(2)	3,683
Cost at 31 December 2006	1,821,261	66,176	2,386	34,440	34,559	1,958,822
Depreciation						
Accumulated depreciation at 1 January 2005	391,179	43,148	-	21,940	25,816	482,083
Charge for the year	45,114	23,647	-	2,469	1,627	72,857
Fully depreciated dry docking costs	-	(20,457)	-	-	-	(20,457)
Disposals	(80,203)	(11,036)	-	(1,713)	(2,602)	(95,554)
Accumulated depreciation at 31 December 2005	356,090	35,302	-	22,696	24,841	438,929
Charge for the year	55,258	23,337	-	2,633	2,539	83,767
Fully depreciated dry docking costs	-	(29,635)	-	-	-	(29,635)
Disposals of assets	(818)	-	-	(92)	(1,023)	(1,933)
Transfer to assets held for sale	(43,939)	(3,171)	-	-	-	(47,110)
Accumulated depreciation at 31 December 2006	366,591	25,833	-	25,237	26,357	444,018
Net book value at 31 december 2005	**989,629**	**31,453**	**2,386**	**10,242**	**7,902**	**1,041,439**
Net book value at 31 december 2006	**1,454,670**	**40,516**	**2,386**	**9,203**	**8,030**	**1,514,804**

Vessels

	31 December 2006		
(In Thousands of United States Dollars)	**Total**	**Pledged as security under bank loans**	**Assets under finance leases**
100% owned			
No of vessels	55	39	-
Net book value	1,369,896	1,233,763	-
Market value	2,381,400	2,152,250	-
50% owned			
No of vessels	12	10	2
Group's share of book value	125,290	113,926	11,364
Group's share Market value	129,000	117,500	11,500
Net book value	**1,495,186**	**1,347,689**	**11,364**
Market value	**2,510,400**	**2,269,750**	**11,500**

The market value of the fleet at 31 December 2006 owned by the Group as estimated by the directors and supported by independent professional valuations was $2,510 million (31 December 2005: $1,825 million).

Assets held for sale

(In Thousands of United States Dollars)	**Total**
100% owned	
No of vessels	7
Net book value	36,197
Market value	59,375

Subsequent to the balance sheet date, management committed to a plan to sell a further 7 vessels, which have a book value of $30,797 at 31 December 2006. The disposal of the vessels is made in accordance with the "Fleet modernization program" as approved by the Company's Board of Directors.

Assets under construction

(In Thousands of United States Dollars)	**Vessels**	**Buildings, plant and equipment**	**Total**
Balance at 31 December 2004	297,300	1,434	298,734
Additions and advances to shipyards	281,493	2,012	283,505
Finance and other costs capitalised	11,092	-	11,092
Transfers to vessels, property, plant and equipment	(213,882)	(2,269)	(216,151)
Disposal of assets	(58,274)	(591)	(58,865)
Balance at 31 December 2005	317,729	586	318,315
Additions	354,374	13,402	367,776
Finance and other costs capitalised	9,688	-	9,688
Transfers to vessels, property, plant and equipment	(435,390)	(4,655)	(440,045)
Balance at 31 December 2006	**246,401**	**9,333**	**255,734**

Insurance policies

JSC Novorossiysk Shipping Company and Intrigue Shipping Inc. are members of the West of England P&I Club for third party liability purposes. Intrigue Shipping Inc. is also a member of Assuranceforeningen Gard.

9. INVENTORIES

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Bunkers	8,196	3,436
Raw materials, spares and finished goods	4,348	3,209
	12,544	**6,645**

10. TRADE AND OTHER RECEIVABLES

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Accounts receivable and accrued income	30,603	14,434
Prepayments	5,129	4,622
Income tax receivable	2,948	6,089
Other taxes receivable	209	213
Other receivables	11,017	8,882
	49,906	**34,240**

11. INVESTMENTS

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Short-term bank deposits held to maturity	45,470	50,466
Short-term equity investments available for sale, at fair value	2,545	-
Other investments	375	366
	48,390	**50,832**

Short-term bank deposits are placed in Russian banks and have a maturity of 4-6 months. The interest is 6-9% and 5-6% for RUR and USD denominated deposits, respectively.

In July 2006 the Group acquired 280,455 ordinary shares of OAO "Rosneft", a Russian public company for a consideration of $2,122 thousand. As of December 31, 2006 the market value of these shares had increased to $2,545 thousand.

12. CASH AND BANK BALANCES

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Cash at banks and in hand	73,872	87,521
Cash on board and petty cash	314	307
	74,186	**87,828**

At 31 December 2006, cash amounting to $ 6,779 thousand is deposited in retention accounts and is retained to cover future principal and interest payments.

13. SHAREHOLDERS' EQUITY

Share capital

Authorised, issued and fully paid share capital:

	31 December 2006		31 December 2005	
	Number	Roubles	Number	Roubles
Ordinary voting shares with nominal value of 1 Rouble each	375,840,500	375,840,500	375,840,500	375,840,500
Preference non-voting class "A" shares with nominal value of 1 Rouble each	125,280,000	125,280,000	125,280,000	125,280,000
	501,120,500	**501,120,500**	**501,120,500**	**501,120,500**

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

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

In the event of liquidation preference shareholders first receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

Treasury shares

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

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

Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2006 the Company had retained earnings, including the profit for the current year, of $94,564 thousand (2005: $90,547 thousand).

A dividend of $0.02/Roubles 0.5, per share (2005: $0.02/Roubles 0.5 per share) on both the ordinary and preference share was declared and paid during the year.

14. LONG-TERM DEBT

This note provides information about the contractual terms of the Group's loans. For more information about the Group's exposure to interest rate risk see Note 26.

(In Thousands of United States Dollars)	**31 December 2006**	**31 December 2005**
Current portion of long term debt		
Secured bank loans	90,609	64,560
	90,609	**64,560**
Non-current portion of long term debt		
Secured bank loans	731,084	529,514
	731,084	**529,514**
	821,693	**594,074**

As at the balance sheet date $157,600 thousand (31 December 2005: $62,000 thousand) of revolving credits were available to the Group to draw.

Finance charges during the reporting period amounted to $49 million (31 December 2005: $38.7 million), of which $2.2 million (31 December 2005: $4.5 million) was capitalised to the cost of vessels under construction.

The terms and repayments schedule is as follows:

(In Thousands of United States Dollars)	**Total**	**Under 1 year**	**2-5 years**	**Over 5 years**
Secured loans				
EURO – fixed 11.29%	2,306	1,378	928	
USD – fixed 5.5%	122,697	11,228	44,911	66,558
USD - variable LIBOR+ 0.70 – 1.0%	633,848	70,706	249,693	313,449
USD - variable LIBOR+ 1.25 – 1.50%	28,981	3,262	19,043	6,676
USD - variable EURIBOR+ 1.375 – 1.50%	33,861	4,035	29,488	338
	821,693	**90,609**	**344,063**	**387,021**

As security for the loans lenders have first preferred mortgages on the Group's vessels with an aggregate market value as at 31 December 2006 of $2,270 million (Note 8).

15. FINANCE LEASES

The joint venture of the Group has an obligation under two eight year bareboat charter agreements entered into by one of its subsidiaries in February 2005 when it sold and leased back two of its vessels for an aggregate consideration of $26 million at an effective interest rate of 6.79% per annum. At the end of the principle lease period the subsidiary has the option to extend the leases for two five-year periods declarable in years eight and thirteen respectively.

Both the subsidiary of the joint venture and the lessor have call and put options respectively, requiring the lessor to sell the vessels to the subsidiary or the subsidiary to buy the vessels from the lessor, at the end of the principle lease period and at the end of each of the five year extension periods at predetermined vessels prices ranging from $7.75 million to $2.75 million. Finance lease liabilities are payable as follows:

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

The finance lease liabilities are secured by the leased vessels. At 31 December 2006 the Group's share of net book value of the leased assets was $11,364 thousand.

16. DEFERRED TAX LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

(In Thousands of United States Dollars)	Assets		Liabilities		Net	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Vessels and other fixed assets	-	-	23,523	8,561	23,523	8,561
Inventories	(179)	(42)	-	-	(179)	(42)
Receivables	-	(110)	8	-	8	(110)
Current investments	-	-	102	-	102	-
Provisions, accruals and deferred income	-	-	65	329	65	329
Net tax (assets) / liabilities	**(375)**	**(320)**	**24,094**	**9,058**	**23,519**	**8,738**

Movement in temporary differences during the year

(In Thousands of United States Dollars)	Balance 31 December 2005	Acquired through joint venture	Translation adjustment	Recognised in income statement	Balance 31 December 2006
Vessels and other fixed assets	8,561	11,728	6	3,228	23,523
Inventories	(42)	-	-	(137)	(179)
Receivables	(110)	-	-	118	8
Current investments	-	-	-	102	102
Provisions, accruals and deferred income	329	-	-	(264)	65
	8,738	**11,728**	**6**	**3,047**	**23,519**

Unrecognised deferred tax liability

A temporary difference of $992,966 thousand relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

17. TRADE AND OTHER PAYABLES

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Trade creditors	16,630	8,705
Advances received and deferred income	25,873	12,061
Interest payable	4,570	4,181
Derivatives held for trading through the profit and loss	2,213	-
Financial instruments provision	942	1,718
Other taxes payable	942	614
Dividends payable	627	335
Profit tax payable	420	18
Derivatives designated as cash flow hedges	-	3,502
Other liabilities	11,655	6,306
	63,872	**37,440**

18. VOYAGE EXPENSES

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Port expenses	43,042	29,581
Bunker	70,141	42,521
Commission	12,673	10,598
	125,856	**82,700**

19. DIRECT VESSEL EXPENSES

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Crew cost	53,331	40,234
Technical	33,307	28,820
Insurance	11,705	10,110
State social contributions	1,523	1,805
Communication	1,210	1,074
Other	1,543	2,474
	102,619	**84,517**

20. GENERAL AND ADMINISTRATIVE EXPENSES

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Wages and salaries	13,143	13,138
State social contributions	530	499
Rent	833	905
Other	7,592	8,281
	22,098	**22,823**

21. FINANCIAL INCOME

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Interest income	7,106	5,128
Foreign exchange gain	3,167	-
	10,273	**5,128**

22. FINANCIAL EXPENSES

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Interest expense and swap cost	44,737	32,154
Bank fees and charges	2,589	1,226
Foreign exchange loss	-	1,972
	47,326	**35,352**

23. INCOME TAX EXPENSE

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

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Profit before tax	189,887	260,978
Income tax using the domestic corporation tax rate of 24%	45,573	62,635
Non-deductible costs	2,435	7,098
Non-taxable income	(30)	(16)
Increase in deferred tax liability due to return of vessels	2,505	-
Effect of (lower)/higher tax rates in other tax jurisdictions:		
-Liberia, Malta and Marshall Islands	(40,978)	(53,309)
-Spain	240	-
Corrections in respect of prior periods	(878)	-
Income tax expense	**8,867**	**16,408**

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Income tax expense is comprised of:		
Current income tax expense	5,820	18,383
Origination and reversal of temporary differences	3,047	(1,975)
	8,867	**16,408**

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

The directors are of the opinion that in the 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 Russian Marine Register of Shipping and in the Special Registry of Ships and Maritime Companies of the Canary Islands (Spain) (the "SRSMC").

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

24. PERSONNEL COSTS

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

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Crew costs, wages and salaries	66,474	53,372
State social contributions	2,053	2,304
	68,527	**55,676**

25. JOINT VENTURES

Name	Country of incorporation	2006 Ownership / voting	2005 Ownership / voting
Vestoro Holdings Limited	Cyprus	50%	-

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

The acquisition of W.W. Marpetrol S.A., which together with the joint venture has been proportionately consolidated, had the following effect on the Group's assets and liabilities at the date of acquisition:

(In Thousands of United States Dollars)	**Recognised fair values on acquisition**
Non-current assets	
Vessels	124,500
Other property, plant and equipment	49
Long term investments	1,712
Current assets	
Trade and other receivables	1,099
Cash and cash equivalents	2,471
Non-current liabilities	
Bank loans	(62,103)
Finance lease liabilities	(9,616)
Taxes payable	(2,158)
Deferred tax liabilities	(11,728)
Current liabilities	
Bank loans	(6,046)
Finance lease liabilities	(661)
Trade and other payables	(8,158)
Net identifiable assets, liabilities and contingent liabilities	**29,361**
Goodwill on acquisition	5,275
Consideration paid	34,636
Cash acquired	(2,471)
Net cash outflow	**32,165**

The proportionate consolidation of the joint venture had the following effect on the Group's assets, liabilities, income and expenses as at and for the period ended 31 December 2006:

(In Thousands of United States Dollars)	**31 December 2006**
Non-current assets	132,077
Current assets	2,051
Non-current liabilities	(77,781)
Current liabilities	(20,958)
Revenue	11,264
Net expenses	(11,337)

26. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all new customers, other than related parties, requiring credit over a certain levels. At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Interest rate risk

Changes in interest rates impact primarily loans by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management has a formal policy of determining how much of the Group's exposure should be to fixed or variable rates, and trades in interest rate derivative instruments in managing its exposure in accordance with that policy. In 2006 interest rate derivative instruments have not been designated as cash flow hedges, with exception of the swaps held by the Groups joint venture (see below), and have been recognised as financial liabilities at fair value through the profit and loss. During 2006, those interest rate financial instruments that had been previously recognised as cash flow hedges matured with the accumulated gains and loss being recorded in the income statement.

The following interest rate financial derivatives are held by the Group at 31 December 2006:

Type of instrument	Notional amount	Interest rate	Expiry date
Collar and sold Cap	\$50 million	4.5%/5.9% and 7.0%	2011
Collar and Knock Out	\$50 million	4.1%/5.9% and 7.0%	2011
Swaption 1	\$50 million	4.65%	2012
Swaption 2	\$50 million	4.65%	2013
Swaption 3	\$55 million	4.60%	2013

At 31 December 2006 the fair value of interest rate derivative instruments based on broker quotes is a liability of \$1,751 thousand.

In addition, the joint venture of the Group has entered into interest rate swap agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations. The aggregate notional amount at 31 December 2006 amounts to \$24.2 million amortising in accordance with the initial repayment schedule of the relevant loans. These agreements mature between 2 April 2008 and 31 July 2008. The interest rates have been fixed between 2.43% and 2.97% compared to U.S. three/six month LIBOR.

The variable rate interest bearing loans of the Group re-price on a quarterly basis.

Commodity price risk

Commodity price risk relates primarily to the risk that the Group's current and future cash flows and earnings will be adversely impacted by changes in the market prices relating to the purchase of bunkers. The Group enters into derivative financial instruments to offset the price risk associated with bunkers. As at the balance sheet date the commodity risk derivative instruments were recognised as trading instruments at fair value with any resultant gain or loss recorded in the income statement.

The following commodity risk derivatives instruments are held by the Group at 31 December 2006:

Type of instrument	Notional amount	Interest rate	Expiry date
Collar and sold Cap 1	12 X 1,000 t/month	\$/t 280/325 and 348.5	2007
Collar and sold Cap 2	10 X 1,000 t/month	\$/t 290/325 and 350	2007
Swap	12 X 1,000 t/month	\$/t 294.5	2007

At 31 December 2006 the fair value of commodity risk derivative instruments based on broker quotes is a liability of \$462 thousand.

Foreign currency risk

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

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

(In Thousands of United States Dollars)	2006			2005		
	RUR	**Euro**	**GBP**	**RUR**	**Euro**	**GBP**
Current assets						
Cash and cash equivalents	2,487	2,691	-	1,019	-	-
Trade and other receivables	9,107	-	-	11,694	-	-
Current investments	38,326	607	-	26,561	-	-
Current liabilities						
Trade and other payables	3,057	5,360	1,476	2,033	913	987
Loans and borrowings	-	36,167	-	-	-	-
Non-current liabilities						
Other non-current liabilities	1,925	-	-	-	-	-

The following exchange rates applied at 31 December:

	2006			2005		
	RUR	**Euro**	**GBP**	**RUR**	**Euro**	**GBP**
1 US dollar equals	26.3	0.76	0.51	28.7	0.85	0.58

Fair values

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

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

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

Financial liabilities: Fair value is based on broker quotes.

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

27. COMMITMENTS

Capital commitment

During 2004 the Group entered into the following shipbuilding contracts:

To construct two crude oil carriers of 105,000 dwt at the shipyards of Hyundai Heavy Industries Co., Ltd, Korea. The total contract price is $80.92 million. Payment terms for these vessels are 20% upon signing of the contract, a further three instalments of 20% each at the defined stages of construction and 20% on delivery. Vessels are due for delivery in 2007. The outstanding commitment under these contracts together with additional work ordered at 31 December 2006 was $40.92 million.

To construct four oil and chemical carriers of 40,000 dwt at the shipyards of Shina Shipbuilding Co., Ltd, Korea. The total contract price was $128.4 million. Payment terms for these vessels are 20% upon signing of the contract, another instalment of 20% at the defined stage of construction and 60% on delivery. As at the balance sheet date two of the four vessels had been delivered to the Group and remaining two are due for delivery in 2007. The outstanding commitment under these contracts together with additional work ordered at 31 December 2006 was $39.0 million.

To construct four crude oil carriers of 115,000 dwt at the shipyards of Samsung Heavy Industries Co., Ltd, Korea. The total contract price is $220.4 million. Payment terms for these vessels are 20% upon signing of the contract, a further three instalments of 20% each at the defined stages of construction and 20% on delivery. The outstanding commitment under these contracts together with additional work ordered at 31 December 2006 was $110.3 million. Vessels are due for delivery in 2007 and 2008.

During 2006 the Group entered into the following shipbuilding contracts:

To construct six crude oil carriers of 156,000 dwt at the shipyards of Jiangsu Rongsheng Heavy Industries Group Co., Ltd, China. The total contract price is $431.1 million. Payment terms for these vessels are 20% upon signing of the contract and presentation of refund guarantee by the builder, a further three instalments of 20% each at the defined stages of construction and 20% on delivery. The outstanding commitment under these contracts together with additional work ordered at 31 December 2006 was $431.1 million. Vessels are due for delivery in 2008 and 2009.

To construct four product oil carriers of 112,000 dwt at the shipyards of Hyundai Heavy Industries Co., Ltd, Korea. The total contract price is $271.18 million. Payment terms for these vessels are 25% upon signing of the contract, a further three instalments of 20%, 15% and 20% at the defined stages of construction and 20% on delivery. The outstanding commitment under these contracts together with additional work ordered at 31 December 2006 was $204.5 million. Vessels are due for delivery in 2009.

Other commitments

The joint venture of the Group has entered into long term time charters with aggregate hires receivable of Euro 94.5 million ($124.5 million) expiring after more than five years which include various charterers' extension options.

28. CONTINGENCIES

Tax contingencies

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

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

29. RELATED PARTY TRANSACTIONS

Transactions and balances with other government-controlled entities

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Cash in government-controlled banks	9,025	1,382
Short-term investments (deposits) in government-controlled banks	33,362	50,466

	2006	2005
Interest income from the government-controlled banks	3,172	3,259

Management remuneration

(In Thousands of United States Dollars)	31 December 2006	31 December 2005
Compensation of key management personnel of Parent company	2,031	3,025
Termination benefit	-	320

Transactions with related parties take place on normal commercial terms.

***