

**JSC Novoship  
and its subsidiaries**

Consolidated financial statements

*31st December 2010*

JSC Novoship

Consolidated financial statements

31st December 2010

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## Independent auditor's report

To the members of JSC Novoship

We have audited the consolidated financial statements of JSC Novoship for the year ended 31 December 2010 which comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes 1 to 44. The financial reporting framework that has been applied in the preparation is applicable law and International Financial Reporting Standards (IFRSs).

This report is made solely to the company's members, as a body, in accordance with the terms of our engagement letter dated 2 March 2011. 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.

### **Respective responsibilities of management and auditor**

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.

Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

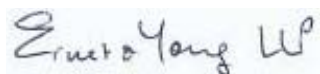
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by management; and the overall presentation of the financial statements.

## **Opinion on financial statements**

In our opinion the group financial statements:

Give a true and fair view of the state of the group's affairs as at 31 December 2010 and its profit for the year ended; and

Have been properly prepared in accordance with IFRSs.

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive style and is positioned above the printed name of the firm.

Ernst & Young LLP  
London  
19 April 2011

JSC Novoship

Consolidated statement of financial position

As at 31st December 2010

(Expressed in U.S.\$'000)

	Note	31st December 2010	31st December 2009 (Restated Note 43)	31st December 2008 (Restated Note 43)
<b>Assets</b>				
<b>Non-current assets</b>				
Fleet	6	1,827,199	1,927,748	1,671,854
Vessels under construction	7	95,212	178,493	426,047
Other fixed assets	8	22,699	24,416	25,133
Investment property	9	1,062	1,340	1,330
Other fixed assets under construction	10	8,427	6,981	12,223
Investment in associates	11	1,237	1,159	1,008
Goodwill	13	–	–	2,141
Investments	11	4,218	4,187	1,006
Long term receivables		2,491	1,779	–
		<b>1,962,545</b>	<b>2,146,103</b>	<b>2,140,742</b>
<b>Current assets</b>				
Inventories	14	23,306	25,114	17,726
Trade and other receivables	15	72,080	52,814	61,772
Current tax receivable		406	244	2,010
Investments	11	144	3,215	7,503
Cash and bank deposits	18	166,652	128,794	140,178
		<b>262,588</b>	<b>210,181</b>	<b>229,189</b>
Non-current assets held for sale	13	34,187	51	28
<b>Total assets</b>		<b>2,259,320</b>	<b>2,356,335</b>	<b>2,369,959</b>
<b>Equity and liabilities</b>				
<b>Capital and reserves</b>				
Share capital	16	12,171	14,655	17,795
Reserves		1,492,371	1,498,612	1,436,618
<b>Equity attributable to the owners of the parent</b>		<b>1,504,542</b>	<b>1,513,267</b>	<b>1,454,413</b>
Non-controlling interests		267	231	194
<b>Total equity</b>		<b>1,504,809</b>	<b>1,513,498</b>	<b>1,454,607</b>
<b>Non-current liabilities</b>				
Secured bank loans	19	558,786	651,354	615,782
Finance lease liabilities	20	6,493	7,279	8,011
Retirement benefit obligations	21	8,240	5,297	5,849
Deferred tax liabilities	22	4,207	4,959	6,997
Provision	17	13,912	4,353	4,237
Other non-current liabilities		468	374	–
		<b>592,106</b>	<b>673,616</b>	<b>640,876</b>
<b>Current liabilities</b>				
Trade and other payables	23	38,706	49,696	55,313
Secured bank loans	19	77,582	77,578	131,317
Finance lease liabilities	20	786	733	683
Current tax payable		218	411	343
Provision for onerous contracts		–	–	1,172
Liability to buyback shares		–	–	36,945
Derivative financial instruments	24	42,787	38,455	46,992
Amount due to minority shareholders		2,326	2,348	1,711
		<b>162,405</b>	<b>169,211</b>	<b>274,476</b>
<b>Total equity and liabilities</b>		<b>2,259,320</b>	<b>2,356,335</b>	<b>2,369,959</b>

Approved by the Management Board and authorised for issue on

and signed on its behalf by:

President, Tonkovidov I.V.

The accompanying notes are an integral part of these consolidated financial statements.

JSC Novoship  
Consolidated income statement  
For the period ended 31st December 2010  
*(Expressed in U.S.\$'000)*

	Note	31st December 2010	31st December 2009 (Restated Note 43)
Freight and hire revenue	32	516,450	512,919
Voyage expenses and commissions	33	(176,076)	(143,553)
Time charter equivalent revenues		340,374	369,366
<b>Direct operating expenses</b>			
Vessels' running costs	34	(136,749)	(135,594)
Vessels' drydock cost amortisation	6	(18,530)	(20,184)
		(155,279)	(155,778)
<b>Profit on vessels' trading</b>		<b>185,095</b>	<b>213,588</b>
<b>Other operating expenses</b>			
Depreciation and amortisation			
Vessels' depreciation	6	(78,467)	(75,594)
Vessels' impairment provision	6	(22,035)	(4,303)
Other depreciation	8	(3,275)	(3,362)
Investment property depreciation	9	(171)	(204)
		(103,948)	(83,463)
Allowance for credit losses		(54)	(214)
General and administrative expenses	26	(18,773)	(17,781)
<b>Total other operating expenses</b>		<b>(122,775)</b>	<b>(101,458)</b>
<b>Profit from vessels' operations</b>		<b>62,320</b>	<b>112,130</b>
Reversal for impairment of vessels under construction		–	1,025
Reversal of onerous contract		–	1,172
Loss on sale of assets	27	(13,836)	(2,035)
Gain on disposal of investments		1,170	406
Net other operating income	29	1,886	6,388
Share of gains in associated undertakings	11	78	151
<b>Operating profit</b>		<b>51,618</b>	<b>119,237</b>
<b>Other (expenses) / income</b>			
Interest expense		(31,241)	(29,396)
Bank and other interest receivable		12,866	5,665
Financing costs		(3,102)	(2,946)
Other non-operating income / (expenses)		3,682	(12,350)
Gain / (loss) on derivative financial instruments held for trading	24	(5,335)	8,062
Impairment of goodwill		–	(2,141)
Foreign exchange differences		(2,895)	(7,334)
<b>Net other expenses</b>		<b>(26,025)</b>	<b>(40,440)</b>
<b>Profit before income taxes</b>		<b>25,593</b>	<b>78,797</b>
Income taxes	31	(16,972)	(4,153)
<b>Profit for the period</b>		<b>8,621</b>	<b>74,644</b>
<b>Attributable to:</b>			
Owners of the parent		8,585	74,607
Non-controlling interests		36	37
		<b>8,621</b>	<b>74,644</b>
<b>Earnings per share:</b>			
Basic earnings per ordinary share	37	U.S. \$0.03	U.S.\$0.25

*The accompanying notes are an integral part of these consolidated financial statements.*

JSC Novoship  
Consolidated statement of comprehensive income  
For the period ended 31st December 2010

*(Expressed in U.S.\$'000)*

	<b>Note</b>	<b>31st December 2010</b>	<b>31st December 2009 (Restated Note 43)</b>
<b>Profit for the period</b>		<b>8,621</b>	<b>74,644</b>
<b>Other comprehensive income:</b>			
Exchange difference on translating of foreign operations		(1,026)	1,679
Financial instruments	25	1,003	475
Available for sale financial assets		(1,280)	1,139
<b>Other comprehensive income for the period, net of tax</b>		<b>(1,303)</b>	<b>3,293</b>
<b>Total comprehensive income for the period</b>		<b>7,318</b>	<b>77,937</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		36	37
Non-controlling interests		7,318	77,937
		<b>7,282</b>	<b>77,900</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

JSC Novoship  
Consolidated statement of changes in equity  
For the period ended 31st December 2010

(Expressed in U.S.\$'000)

Note	Share capital (note 16)	Treasury shares	Hedging reserve	Fair value reserve	Currency reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total
<b>Balance 1st January 2009 (Restated)</b>	<b>17,795</b>	<b>(6,022)</b>	<b>(1,478)</b>	<b>141</b>	<b>(3,273)</b>	<b>1,447,250</b>	<b>1,454,413</b>	<b>194</b>	<b>1,454,607</b>
Total comprehensive income	–	–	475	1,139	1,679	74,607	<b>77,900</b>	37	<b>77,937</b>
Correction buy-back 2008	–	(23)	–	–	–	6,547	<b>6,524</b>	–	<b>6,524</b>
Cancellation of shares	(1,729)	1,729	–	–	–	–	–	–	–
Buy-back of shares	(1,411)	1,220	–	–	–	(3,519)	<b>(3,710)</b>	–	<b>(3,710)</b>
Dividends	–	–	–	–	–	(21,860)	<b>(21,860)</b>	–	<b>(21,860)</b>
<b>Balance 31st December 2009 (Restated)</b>	<b>14,655</b>	<b>(3,096)</b>	<b>(1,003)</b>	<b>1,280</b>	<b>(1,594)</b>	<b>1,503,025</b>	<b>1,513,267</b>	<b>231</b>	<b>1,513,498</b>
Total comprehensive income	–	–	1,003	(1,280)	(1,026)	8,585	<b>7,282</b>	36	<b>7,318</b>
Buy-back of shares	–	(129)	–	–	–	(4,840)	<b>(4,969)</b>	–	<b>(4,969)</b>
Cancellation of shares	(2,484)	2,484	–	–	–	–	–	–	–
Dividends	–	–	–	–	–	(11,038)	<b>(11,038)</b>	–	<b>(11,038)</b>
<b>Balance 31st December 2010</b>	<b>12,171</b>	<b>(741)</b>	<b>–</b>	<b>–</b>	<b>(2,620)</b>	<b>1,495,732</b>	<b>1,504,542</b>	<b>267</b>	<b>1,504,809</b>

**Notes:**

Hedging reserve: The hedging reserve contains the effective portion of the cash flow hedge relationships incurred as at the reporting date.

Fair value reserve: The fair value reserve records fair value changes on available-for-sale financial assets.

Currency reserve: The currency reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

*The accompanying notes are an integral part of these consolidated financial statements.*

JSC Novoship

Consolidated statement of cash flows

For the period ended 31st December 2010

(Expressed in U.S.\$'000)

	Note	31st December 2010	31st December 2009
<b>Operating activities</b>			
Cash received from freights and hire of vessels		518,498	546,138
Other cash receipts		40,368	9,196
Cash payments for voyage and running costs		(317,478)	(297,913)
Other cash payments		(53,494)	(31,363)
Reimbursement received under legal case		3,000	3,000
Payment of legal fees		(6,799)	(14,307)
Cash generated from operations	35	184,095	214,751
Interest received		2,539	5,647
Income tax paid		(17,869)	(4,670)
<b>Net cash inflow from operating activities</b>		<b>168,765</b>	<b>215,728</b>
<b>Investing activities</b>			
Proceeds from sale/purchase of investments		3,503	901
Expenditure on vessels		(2,790)	(3,383)
Expenditure on drydocking		(14,779)	(16,188)
Expenditure on vessels under construction		(63,621)	(98,650)
Expenditure on other fixed assets		(12,939)	(9,755)
Proceeds on sale of vessels		77,917	7,863
Dividend received		41	-
Proceeds on sale of other fixed assets		3,272	117
Placement of bank deposits, net		(6,562)	2,007
Proceeds from cancellation of shipbuilding contract		20,617	-
<b>Net cash inflow / (outflow) from investing activities</b>		<b>4,659</b>	<b>(117,088)</b>
<b>Financing activities</b>			
Loans drawn down		80,500	113,788
Repayment of loans		(173,744)	(131,692)
Financing costs		(2,009)	(1,652)
Repayment of finance leases		(756)	(711)
Cash inflow from retention accounts, net		1,169	4,015
Restricted deposits		11,554	(22,337)
Interest paid on loans		(13,598)	(20,971)
Interest paid on finance leases		(528)	(574)
Interest received on financial instruments		-	259
Interest paid on financial instruments		(17,772)	(10,360)
Buy back of shares		(4,969)	(34,287)
Dividends paid		(10,570)	(21,223)
<b>Net cash outflow outflow from financing activities</b>		<b>(130,723)</b>	<b>(125,745)</b>
<b>Increase in cash and cash equivalents</b>		<b>42,701</b>	<b>(27,105)</b>
<b>Cash and cash equivalents at 1st January</b>	<b>19</b>	<b>98,126</b>	<b>127,832</b>
Net foreign exchange rate difference		1,318	(2,601)
<b>Cash and cash equivalents at 31st December</b>	<b>19</b>	<b>142,145</b>	<b>98,126</b>

The accompanying notes are an integral part of these consolidated financial statements.

# JSC Novoship

## Notes to the consolidated financial statements

31st December 2010

### 1. Organisation and Trading Activities

JSC "Novoship" (the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies and companies with limited liability as defined in the Civil Code of the Russian Federation, and companies located abroad.

The Company was privatised as an open joint stock company on 10th November 1992, as part of the Russian Federation privatisation program. The Group's principal activity is ship owning and operating businesses.

The Company's registered office and primary place of business is the Russian Federation, Novorossiysk, Ulitsa Svobody, 1.

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

### 2. Directors and Management

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

The Board of Directors as at the date of approval of these financial statements are:

S.O. Frank	President and Chief Executive Officer of JSC 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.V. Tarakanov	General Director, CJSC CPC-R and JSC CPC-K
V.A. Komanov	First Vice-President of JSC Gazprombank
V.A. Mednikov	Executive Vice-President of OAO Sovcomflot, Administrative Director
S.G. Popravko	Managing Director of Unicom Management Services (Cyprus) Ltd
R. Sasson	Senior Managing Partner, UFG Asset Management Group, UFG Private Equity
I.V. Tonkovidov	President of JSC Novoship

The Board of Management members are:

I.V. Tonkovidov	President of JSC Novoship
S.N. Burima	Vice-President of JSC Novoship
V.P. Oskirko	Vice-President of JSC Novoship
N.V. Ryzhuk	Chief Accountant of JSC Novoship
O.A. Stepanov	Director of Human Resources Department of JSC Novoship

### 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 2010.

Notes to the consolidated financial statements (continued)

**3. Adoption of new and revised international financial reporting standards (continued)**

The adoption of the Standards and Interpretations issued by the IASB has led to the following changes in the Group's accounting policies:

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.

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 noncontrolling interests having a deficit balance.

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 1st January 2011).
- ▶ IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1st July 2010).
- ▶ IAS 24 (*revised*): (*Related Party Disclosures*) – (*revised definition of related parties*) (effective for annual periods beginning on or after 1st January 2011).
- ▶ Amendments to IAS 32 (*Financial Instruments: Presentation*) - *Classification of Rights Issues* (effective for annual periods beginning on or after 1st February 2010).
- ▶ Amendments to IFRS 1 (*First-time Adoption of International Financial Reporting Standards*) - *Limited Exemption from comparative IFRS 7 Disclosures for First time Adopters* (effective for annual periods beginning on or after 1 July 2010).
- ▶ IFRS 7 (*Financial Instruments: Disclosures*) - *Amendments enhancing disclosures about transfers of financial assets* (effective for annual periods beginning on or after July 2011).
- ▶ IFRS 9 (*Financial Instruments*) - *Classification and Measurement* (effective for annual periods beginning on or after 1st January 2013).
- ▶ IAS 12 (*Income Taxes*) - *Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1st January 2012)

Notes to the consolidated financial statements (continued)

**3. Adoption of new and revised international financial reporting standards (continued)**

The IASB improvements project is an annual occurrence. The improvements to IFRSs issued in May 2010 impact on a number of standards and interpretations. These changes are effective for accounting periods beginning on or after 1st January 2011 and in some cases on or after 1st July 2010.

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 except for IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010.

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- ▶ 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.
- ▶ IFRS 9 will also affect the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. In particular for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

**4. Significant accounting policies**

a) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Accounting Standards as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. The financial statements are presented in U.S. Dollars, the currency of the Group's primary economic environment.

b) Basis of consolidation

The consolidated financial statements include the financial statements of JSC Novoship and its subsidiaries and joint venture, for the period from 1st January 2010 (or subsequent dates of incorporation) to 31st December 2010.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

b) Basis of consolidation (continued)

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

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

Changes in the Group's ownership interests in subsidiaries that do not result in a change of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Non-controlling interests in subsidiaries are identified separately from the group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

c) Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The consideration for each 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. Acquisition related costs are recognised in profit or loss as incurred. 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.

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. These transactions are accounted for on a pooling of interests basis. The financial position, financial performance and cash flows of the combined group are brought together as if the companies had always been a single entity.

The Group initiates and performs a review of all acquisition transactions incurred during the period to consider the transaction to be either a business combination or an asset acquisition in accordance with IFRS 3. When the acquisition is not business combination by its nature, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 *Intangible Assets*) and liabilities assumed. The cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

d) Segmental reporting

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

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

The management accounting policies of the operating segments are identical to the policies described in note 39.

e) Investments in associates

The results and assets and liabilities of associates are included in these financial statements for the period from 1st January 2010 (or subsequent dates of incorporation) to 31st December 2010, 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.

f) Interests in joint ventures

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

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

g) Goodwill and other intangible assets

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain. 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 4(e) above.

h) Non-current assets held for sale

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

i) Hire and freight revenue

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

Freight revenues are earned for the carriage of cargo on behalf of the charterer from one or more locations of cargo loading to one or more locations of cargo discharge. Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached, the Group is compensated for the additional time incurred in the form of a demurrage revenue which is recognised upon delivery of service in accordance with the terms and conditions of the charter parties.

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 4. Significant accounting policies (continued)

#### i) Hire and freight revenue (continued)

Hire revenues are earned for exclusive use of the services of the vessel by the charterer 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 revenues. The term is commonly used in the shipping industry to measure financial performance and to compare revenue generated from a voyage charter to revenue generated from a time charter.

Freight revenue is recognised rateably over the estimated length of each voyage. 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 forecast on voyages in progress at the end of the financial reporting period.

Revenues from time charters (hire revenues) are accounted for as operating leases and recognised on a straight line basis over the rental periods of such charters, as service is performed. Provision is made for all hire receivable to the end of the financial reporting period in respect of time charter in progress. Any contractual rate changes over the contract term, to the extent they relate to the firm period of the contract, are taken into account when calculating the daily hire rate.

#### j) Interest revenue

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

#### k) Currency translation

##### *Transactions and balances*

Transactions during the period in other currencies have been translated into U.S. Dollars at rates ruling at the time. At the end of each reporting period, monetary assets and liabilities denominated in other currencies are retranslated at the rates ruling at that date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

For the purposes of these financial statements, liabilities and current assets are translated at year end as follows:

	<b>31st December 2010</b>	<b>31st December 2009</b>
	<b>Exchange rate</b>	<b>Exchange rate</b>
	<b>U.S.\$1</b>	<b>U.S.\$1</b>
Russian Roubles	30.4769	30.2442
Pounds Sterling	0.6387	0.6193
Euros	0.7454	0.6970

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

k) Currency translation (continued)

*Group companies*

The assets and liabilities of the Group's foreign operations are translated into U.S. Dollars at the rate of exchange ruling at the reporting date. Income and expenses 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 are dealt with as movements in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation. They are expressed in the functional currency of the foreign operation and are translated at the rate of exchange ruling at the reporting date.

l) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset (see also Note 4(q)).

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. Investment income earned on the temporary investment of borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

m) Leasing

Finance leases are leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item. Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases.

*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.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

m) Leasing (continued)

*Finance lease receivables*

At the commencement of the lease term, amounts due from lessees are recognised as receivables in the statement of financial position at the amount equal to the net investment in the lease which is the present value of the minimum lease payments receivable, plus any unguaranteed residual value, each determined at the inception of the lease. The discount rate 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.

n) Retirement benefit costs

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

*Defined contribution retirement benefit plans*

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

*Defined benefit retirement benefit plans*

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

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

*Long-term service retirement benefit plans*

The Group's net obligation in respect of long-term service retirement benefit plans 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 longterm 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.

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 4. Significant accounting policies (continued)

#### n) Retirement benefit costs (continued)

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.

#### o) Fixed assets and depreciation

The Group's fleet, buildings and other fixed assets are stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss.

Cost comprises of the acquisition or construction cost of the asset and any costs directly attributable to the acquisition or construction up to the time that the asset is ready for its intended use. Costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are capitalised as part of the cost of the asset.

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
Bulk carriers	25 years

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

	<b>31st December 2010</b> <b>U.S.\$</b> <b>per LWT</b>	<b>31st December 2009</b> <b>U.S.\$</b> <b>per LWT</b>
Oil, product and chemical tankers, Bulk carriers	490	390

Depreciation in respect of buildings and other fixed assets is charged so as to write off their cost on a straight-line basis over the anticipated useful lives of the assets concerned at a rate of between 2.5% and 5% and between 20% and 33% per annum respectively. Land is not depreciated.

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. An increase in the residual value of an asset will decrease the depreciation charge for the period and future periods and vice versa until the residual value is reassessed.

#### p) Investment property

Investment property is stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is provided on the same basis as for buildings and other fixed assets as described in note 4(o) above.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

p) Investment property (continued)

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Transfers to, or from, investment property are made only when there is a change in use evidenced by end of owner-occupation, for a transfer from owner-occupied property to investment property, commencement of owner-occupation, for a transfer from investment property to owner occupied property and commencement of development with a view to sale, for a transfer from investment property to assets held for sale.

q) Assets under construction

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

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

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

r) Drydocking and special survey costs

The vessels are required to undergo planned drydockings for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating. 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 are typically required to undergo special surveys, which include inspection of underwater parts ("bottom survey"), every 60 months. Drydocking surveys are required to be held twice within the five-year survey cycle, with a maximum of 36 months between inspections, for bottom surveys 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.

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.

Where a vessel is acquired new or constructed, a proportion of the cost of the vessel is allocated to the components expected to be replaced at the next drydocking based on the expected costs related to the first-coming drydocking, which is based on experience and past history of similar vessels.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

r) Drydocking and special survey costs (continued)

For second hand vessels, the actual cost of the previous drydocking component is used, amortised to the date of acquisition, taking into account the drydocking cycle of the vessel. Where the actual cost of the previous drydocking is not known, the expected costs related to the first-coming drydocking, amortised to the date of acquisition is used as an indication of the cost of the previous drydocking component, which is again based on experience and past history of similar vessels.

Unamortised balances at the date of disposal are written off to profit / loss on sale of vessels.

s) Impairment

At the end of each financial reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount is less than the carrying amount of the asset, the asset is considered impaired and an expense is recognised equal to the amount required to reduce the carrying amount of the vessel to its recoverable amount.

Vessels are generally owned by individual Special Purpose Vehicles ("SPVs") for which individual accounts are produced and it is therefore possible to treat each vessel as a separate cash generating unit. The Group's trading strategy and methods of employment of vessels, with the exception of some specialised vessels, are based on sub-groups of vessels of the same class with similar characteristics which are therefore interchangeable. The Group employs a trading strategy which involves trading a percentage of the vessels of a certain class on the spot market and a percentage on time charter arrangements. Under this strategy the revenues generated by an individual vessel are not independent of the other vessels of the same class.

Accordingly having performed value in use calculations for a particular vessel which do not support the carrying value of the vessel, and therefore result in an impairment, further consideration is given to whether the vessel's cash flows are independent of other similar vessels. Vessels of the same class with similar characteristics are grouped together into larger cash generating units, to the extent that they are interchangeable, and value in use calculation are performed for the larger cash generating unit to determine if any impairment exists.

t) Inventories

Inventories are stated at cost 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.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

u) Financial instruments

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

*Effective interest method*

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

*Trade receivables*

Trade receivables are 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 present value of estimated future cash flows discounted at the original interest rate. 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 that are readily convertible to known amounts of cash and which are subject to insignificant penalties on early termination. 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.

*Financial assets at fair value through profit or loss ("FVTPL")*

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

u) 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 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.

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

*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.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

u) Financial instruments (continued)

*Classification as debt or equity*

Debt and equity instruments issued by the group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

*Derecognition of financial liabilities*

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

*Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

*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.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

u) Financial instruments (continued)

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a fixed asset, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset.

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.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

A derivative instrument that is not a designated and effective hedging instrument is required to be classified as held for trading under IAS 39 *Financial Instruments: Recognition and Measurement*. IAS 1 clarifies that such an instrument must be separated into current and non-current portions unless it is held primarily for trading. Therefore, an entity separates such a derivative instrument into current and non-current portions based on an assessment of the facts and circumstances and classifies it accordingly.

- ▶ When management holds a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond twelve months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item as discussed below on scenarios 2 and 3.
- ▶ An embedded derivative that is not closely related to the host contract, which is required to be accounted for separately, is classified consistent with the cash flows of the host contract.

A derivative instrument that is a designated and effective hedging instrument, is classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made; and it is applied to all designated and effective hedging instruments.

v) Taxation

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

*Current tax*

The tax currently payable is based on taxable profits for the period which are subject to the fiscal regulations of the countries in which the company and its subsidiaries are incorporated. 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.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

v) 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 liability method.

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

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

*Current and deferred tax for the period*

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

w) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at 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.

x) Insurance claims

Amounts for insurance claims are provided when amounts are virtually certain to be received, based on the Company's judgement and estimates of independent adjusters as to the amount of the claims.

Notes to the consolidated financial statements (continued)

**5. Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions and conditions. 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 the most significant effect on the amounts recognised in the financial statements.

**Critical accounting judgements**

*Classification of charter agreements as either finance or operating leases*

Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently changed. To a certain extent, the classification depends on estimates based on conditions in the contract. In the judgement, a “substance over form” approach is used.

The value of assets held under finance leases recognised in the statement of financial position is based on the discounted value of the contractual lease payments. No conditional lease payments are included and the value can therefore be determined with relative certainty.

*Investments in joint ventures and associates*

The consolidated financial statements include the financial statements of OAO Novoship and its subsidiaries and jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation. Investments in associates are recognised using the equity method of accounting. The classification of entities partly owned by other enterprises depends amongst other things on the individual conditions and clauses in shareholders’ agreements. The exercise of judgement on these conditions and clauses in the shareholders’ agreements determines whether a particular entity is consolidated or accounted for under the equity method.

*Derivative financial Instruments*

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate movements. 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. A number of these contracts are interest rate swap agreements used to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations. Accounting for these contracts as cash flow hedges allows, to the extent that they are designated and effective as cash flow hedges, the change in the fair values of the derivatives to be recognised in other comprehensive income. During the life of the hedge, the Group formally assess whether each derivative designated as a hedging instrument continues to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If it is determined that a hedge has ceased to be highly effective, hedge accounting is discontinued prospectively and any gain or loss recognised in other comprehensive income and accumulated in equity up to the time the hedge ceases to be effective is recycled to the income statement.

Notes to the consolidated financial statements (continued)

**5. Critical accounting judgements and key sources of estimation uncertainty (continued)**

**Key sources of estimation uncertainty**

*Carrying amount of vessels and vessels under construction*

The carrying values of vessels and vessels under construction may not represent their fair market value at any point in time. The market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. Management reviews vessels, including vessels under construction, for impairment whenever events or changes in circumstances indicate the carrying amount of the vessels may not be recoverable. Impairment testing requires an estimate of future cash flows and the choice of a suitable discount rate and an assessment of recoverable amount based on comparable market transactions. If actual results differ from the estimates and assumptions used in estimating future cash flows then this could result in potential impairment losses recognised in future periods. Additional information is disclosed in note 6 to these financial statements.

*Anticipated useful economic life of the fleet and the estimates of residual values*

Depreciation of vessels is charged so as to write down the value of those assets to their residual value over their respective estimated useful lives. Management is required to assess the useful economic lives and residual values of the assets so that depreciation is charged on a systematic basis to the current carrying amount. Estimates of useful economic life of vessels are based on managements' experience by comparison to similar vessels in the industry. However, the actual life of a vessel may be different. Residual values are difficult to estimate given the long lives of vessels, the uncertainty as to future economic conditions and the future price of steel. Residual values are calculated by reference to the value of steel as of the reporting date, obtained from independent professional brokers. Changes to estimates of useful lives and residual values may affect the annual depreciation charge and thereby the results for the period significantly.

*Retirement benefit obligations*

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. The retirement benefit obligations of the Group are based on a number of factors that are determined on an actuarial basis using a number of assumptions such as discount rates, future inflation, the future rate of salary and pension increases, and mortality rates. Any changes in these assumptions may result in significant changes in the carrying amount of pension obligations. Additional information is disclosed in note 22 to these financial statements.

*Legal claim filed in London*

The outcome of the legal claim filed in London, referred to in Note 41.

JSC Novoship

Notes to the consolidated financial statements (continued)

6. Fleet

	Note	Vessels U.S.\$'000	Drydock U.S.\$'000	Total fleet U.S.\$'000
<b>Cost</b>				
<b>At 1st January 2009 (previously stated)</b>		2,087,404	79,032	2,166,436
Correction 2009		(16,105)	(60)	(16,165)
<b>At 1st January 2009 (restated)</b>		<b>2,071,299</b>	<b>78,972</b>	<b>2,150,271</b>
Expenditure in period		2,474	16,136	18,610
Transferred from vessels under construction	7	340,830	6,400	347,230
Write off		–	(22,919)	(22,919)
Disposal		(25,174)	(2,345)	(27,519)
<b>At 31st December 2009</b>		<b>2,389,429</b>	<b>76,244</b>	<b>2,465,673</b>
Expenditure in period		2,790	14,779	17,569
Transferred from vessels under construction	7	125,608	2,970	128,578
Disposal		(195,995)	(8,065)	(204,060)
Write off		–	(20,197)	(20,197)
Transferred to non-current Assets Held for Sale	13	(95,224)	(2,654)	(97,878)
<b>At 31st December 2010</b>		<b>2,226,608</b>	<b>63,077</b>	<b>2,289,685</b>
<b>Depreciation</b>				
<b>At 1st January 2009 (previously stated)</b>		438,002	41,296	479,298
Correction 2009		(696)	(185)	(881)
<b>At 1st January 2009 (restated)</b>		<b>437,306</b>	<b>41,111</b>	<b>478,417</b>
Charge for the period		75,594	20,184	95,778
Impairment provision		4,303	–	4,303
Disposal		(15,560)	(2,094)	(17,654)
Write off		–	(22,919)	(22,919)
<b>At 31st December 2009</b>		<b>501,643</b>	<b>36,282</b>	<b>537,925</b>
Charge for the period		78,467	18,530	96,997
Disposal		(105,729)	(4,854)	(110,583)
Write off		–	(20,197)	(20,197)
Group's share of reversal of impairment provision recognised by Joint Venture		(4,148)	–	(4,148)
Impairment provision		26,183	–	26,183
Transferred to non-current Assets Held for Sale	13	(62,017)	(1,674)	(63,691)
<b>At 31st December 2010</b>		<b>434,399</b>	<b>28,087</b>	<b>462,486</b>
<b>Net book value</b>				
<b>At 31st December 2010</b>		<b>1,792,209</b>	<b>34,990</b>	<b>1,827,199</b>
<b>At 31st December 2009</b>		<b>1,887,786</b>	<b>39,962</b>	<b>1,927,748</b>
<b>At 31st December 2008</b>		<b>1,633,993</b>	<b>37,861</b>	<b>1,671,854</b>

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 6. Fleet (continued)

	<b>31st December 2010</b>	<b>31st December 2009</b>	<b>31st December 2008</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000
Market value <sup>1</sup>	1,838,000	1,799,000	2,549,000
Current insured values <sup>1</sup>	2,121,950	2,860,657	3,143,000
Total deadweight tonnage (dwt) <sup>1</sup>	4,480,372	4,555,201	4,046,965

Summary of fleet at period end (including a share of fleet of joint venture):

Type of vessel	Number of vessels		Dwt'000		Carrying value U.S.\$ million	
	2010	2009	2010	2009	2010	2009
Oil tankers & product carriers	59	66	4,480	4,529	1,827	1,925
Bulk Carriers	–	1	–	26	–	3
	<b>59</b>	<b>67</b>	<b>4,480</b>	<b>4,555</b>	<b>1,827</b>	<b>1,928</b>

As at the period end management carried out an impairment review of the carrying amounts of the fleet, in accordance with the Group's policy (Note 4 (s)), 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 recognition of an impairment provision of U.S.\$22 million (2009 – U.S.\$4.3 million) recorded in the income statement for the period ended 31st December 2010.

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 \$22.6 million (2009 – \$23.8 million) as at 31st December 2010; and
- ▶ An increase in the discount rate of 1% would result in an additional impairment provision to fleet of \$ 8,5 million (2009 – \$3.2 million) as at 31st December 2010.

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

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 6. Fleet (continued)

The main assumptions used in performing the value in use calculations as at 31st December are as follows:

- ▶ Freight rate estimates in the period 2011 to 2013 based on Baltic Exchange Forward Freight Agreements for the relevant route that applies to each vessel;
- ▶ Freight rate estimates after 2013 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, until the expiry of the current agreements; Operating expenses based on the Group's operating budget approved by the Group for 2011 and increasing at a rate of 3% (2009: 3%) per annum for the first five years (up to 2016);
- ▶ The technical element of the operating expenses increasing at a rate of 3% per annum from year six for the remaining useful economic life of the vessels reflecting increase in technical expenses due to the aging of the vessels;
- ▶ Discount rates between 6.72% to 7.62% post tax (2009: 7.0% to 7.65% post tax respectively), depending on the remaining useful economic life of each vessel; and
- ▶ Annual utilisation for each vessel of 352 days less any scheduled drydocking, estimated at 28 days.

As at 31st December 2010 the directors have reassessed the residual value of the fleet in accordance with the Group's accounting policy (see note 4 (o)). The effect of this change in estimate on the results for the period has been to decrease the depreciation charge by U.S.\$3.9 million (2009 - U.S.\$4.4 million).

Included in the Group's fleet are vessels held by its Joint Venture under finance leases with an aggregate carrying value of U.S.\$6.2 million (2009 – U.S.\$8.4 million). The depreciation charge in the period in respect of these vessels amounted to U.S.\$0.4 million (2009 – U.S.\$0.5 million).

As at 31st December 2010 35 vessels (2009 - 56 vessels) were pledged as security under secured bank loans. The aggregate carrying value of the vessels is U.S.\$1.2 billion (2009 – U.S.\$1.4 billion) and market value is U.S.\$1.3 billion (2009 - U.S.\$1.4 billion).

#### 7. Vessels under construction

	Note	2010 U.S.\$'000	2009 U.S.\$'000
<b>Cost</b>			
<b>At 1st January</b>		<b>178,493</b>	<b>426,047</b>
Expenditure for the period		63,621	98,651
Transfer to vessels	6	(125,608)	(340,830)
Transferred to drydock costs	6	(2,970)	(6,400)
Cancellation of contract for vessels under construction		(18,324)	–
Reversal of impairment		–	1,025
<b>At 31st December</b>		<b>95,212</b>	<b>178,493</b>
Total deadweight tonnage (dwt)		456,000	480,000

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 7. Vessels under construction (continued)

Vessels under construction at 1st January 2010 comprised three Suezmax tankers and two Asphalt carriers scheduled for delivery in 2010 at a total contracted cost to the Group of U.S.\$232.5 million.

In July and September 2010 the Group signed agreements for the construction of four Panamax bulk carriers at a total contracted cost of \$160.4 million.

In September and November 2010, the Group cancelled the contracts for the construction of two Asphalt carriers of \$18.8 million each due to substantial delays, by the shipyard, in constructing these vessels. Consequently the Group recovered in full all payments made to the shipyard, totalling \$17.8 million, plus interest of \$2.8 million. All monies were received prior to the period end.

Vessels delivered during the period comprised the following:

<b>Vessel name</b>	<b>Vessel type</b>	<b>Segment</b>	<b>DWT</b>	<b>Delivery date</b>
NS Bora	Suezmax tanker	Crude oil	156,000	31st March
NS Bravo	Suezmax tanker	Crude oil	156,000	14th October

Vessels under construction at 31st December 2010, comprised one Suezmax tanker (m/v "Leonid Loza" which was delivered on 4th January 2011) and four Panamax Bulker scheduled for delivery between March 2013 and August 2013 which at a total contracted cost to the Group of U.S.\$223 million. As at 31st December 2010 U.S.\$93.2 million of the contracted costs and U.S.\$2 million of other cost had been paid.

In the event of termination of the new building contracts the shipyards have the right to retain all instalments paid up to the date of termination as well as the full benefit and property of the vessel constructed.

JSC Novoship

Notes to the consolidated financial statements (continued)

8. Other fixed assets

	Note	Land and buildings U.S.\$'000	Miscellaneous U.S.\$'000	Total U.S.\$'000
<b>Cost</b>				
<b>At 1st January 2009 (previously stated)</b>		<b>27,888</b>	<b>29,257</b>	<b>57,145</b>
Correction 2009		4,330	4,504	8,834
<b>At 1st January 2009 (restated)</b>		<b>32,218</b>	<b>33,761</b>	<b>65,979</b>
Expenditure in period		27	187	214
Transfer from investment property	9	628	1	629
Transfer to investment property	9	(1,185)	(30)	(1,215)
Transfer from other fixed assets under construction	10	584	2,287	2,871
Disposal of assets		(53)	(3,299)	(3,352)
Transfer to non-current assets held for sale	13	–	(522)	(522)
Exchange adjustment		(61)	(83)	(144)
<b>At 31st December 2009</b>		<b>32,158</b>	<b>32,302</b>	<b>64,460</b>
Expenditure in period		498	549	1,047
Transfer to investment property	9	(61)	(1)	(62)
Transfer from other fixed assets under construction	10	504	795	1,299
Disposal of assets		(261)	(4,661)	(4,922)
Exchange adjustment	13	(14)	(29)	(43)
<b>At 31st December 2010</b>		<b>32,824</b>	<b>28,955</b>	<b>61,779</b>
<b>Depreciation</b>				
<b>At 1st January 2009 (previously stated)</b>		<b>15,678</b>	<b>21,480</b>	<b>37,158</b>
Correction 2009		2,120	1,568	3,688
<b>At 1st January 2009 (restated)</b>		<b>17,798</b>	<b>23,048</b>	<b>40,846</b>
Charge for the period		1,055	2,307	3,362
Transfer from investment property	9	515	1	516
Transfer to investment property	9	(876)	(12)	(888)
Disposal of assets		(13)	(3,190)	(3,203)
Transfer to non-current assets held for sale	13	–	(522)	(522)
Exchange adjustment		(11)	(56)	(67)
<b>At 31st December 2009</b>		<b>18,468</b>	<b>21,576</b>	<b>40,044</b>
Charge for the period		1,053	2,222	3,275
Additions		–	192	192
Transfer to investment property	9	(61)	(1)	(62)
Disposal of assets		(31)	(4,293)	(4,324)
Exchange adjustment		2	(47)	(45)
<b>At 31st December 2010</b>		<b>19,431</b>	<b>19,649</b>	<b>39,080</b>
<b>Net book value</b>				
<b>At 31st December 2010</b>		<b>13,393</b>	<b>9,306</b>	<b>22,699</b>
<b>At 31st December 2009</b>		<b>13,690</b>	<b>10,726</b>	<b>24,416</b>

Buildings comprise offices in Novorossyisk, Russia.

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 9. Investment property

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

	<b>Note</b>	<b>2010</b>	<b>2009</b>
		U.S.\$'000	U.S.\$'000
<b>Cost</b>			
<b>At 1st January</b>		<b>7,231</b>	<b>6,645</b>
Transfer from other fixed assets	8	62	1,215
Transfer from other fixed assets under construction	10	22	–
Transfer to other fixed assets		–	(629)
Disposals		(279)	–
<b>At 31st December</b>		<b>7,036</b>	<b>7,231</b>
<b>Depreciation</b>			
<b>At 1st January</b>		<b>5,891</b>	<b>5,315</b>
Charge for the period		171	204
Transfer from other fixed assets	8	62	888
Transfer to other fixed assets		–	(516)
Disposals		(150)	–
<b>At 31st December</b>		<b>5,974</b>	<b>5,891</b>
<b>Net book value</b>			
<b>At 31st December</b>		<b>1,062</b>	<b>1,340</b>
Rental Income derived from investment properties		2,379	2,397
Direct operating expenses (including repair and maintenance)		1,974	1,927

Investment property comprises buildings in Novorossiysk with a market value based on valuations performed by independent qualified valuers, as at 31st December 2010 of \$ 19.9 million (2009 – \$ 32.1 million).

### 10. Other fixed assets under construction

	<b>Note</b>	<b>2010</b>	<b>2009</b>
		U.S.\$'000	U.S.\$'000
<b>At 1st January</b>		<b>6,981</b>	<b>12,223</b>
Expenditure in period		12,084	9,758
Transferred to other fixed assets	8	(1,299)	(2,871)
Transferred to investment property		(22)	–
Disposals		(9,298)	(11,929)
Exchange adjustment		(19)	(200)
<b>At 31st December</b>		<b>8,427</b>	<b>6,981</b>

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 11. Investments

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000
Investments in associates	1,237	1,159	1,008
Long-term bank deposits held to maturity	4,218	4,187	511
Other investments	–	–	495
<b>Non-current asset investments</b>	<b>5,455</b>	<b>5,346</b>	<b>2,014</b>
Current asset investments	144	3,215	7,503
<b>Total investments</b>	<b>5,599</b>	<b>8,561</b>	<b>9,517</b>

Current asset investments comprised:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000
Short-term equity investments available for sale at fair value	–	2,337	1,057
Short-term bank deposits held to maturity	144	878	6,446
	<b>144</b>	<b>3,215</b>	<b>7,503</b>

Investments in associates are analysed as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000
<b>At 1st January</b>	<b>1,159</b>	<b>1,008</b>	–
Share of gains in associate	78	151	170
Investments / acquisitions during the period	–	–	838
<b>At 31st December</b>	<b>1,237</b>	<b>1,159</b>	<b>1,008</b>

At 31st December 2010 the Group had participating interests in the following active associate:

Name	Holding	Country of Incorporation	Principal activity
Chart Pilot LLC	20%	Russia	Production and distribution of navigation equipment

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

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	U.S.\$'000
Total assets	4,795	4,109
Total liabilities	(1,951)	(1,508)
<b>Net assets</b>	<b>2,844</b>	<b>2,601</b>
Group's share of associate net assets	569	520
Revenues	7,740	8,474
Gain for the period	391	757
Group's share of associate gains for the period	78	151

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 12. Joint venture

The Group has a 50% interest in Vestoro Holdings Limited, an asset management company, being an active joint venture. On 16th March 2006 Intrigue Shipping Inc. established a joint venture, Vestoro Holdings Limited, together with a subsidiary of OAO Sovcomflot in which each venturer obtained a 50% interest with equal rights and obligations. In August 2006 the joint venture acquired 91.33% of the share capital of SCF Marpetrol, S.A., a shipping company operating eleven vessels under the Spanish flag and one vessel under the flag of the Marshall Islands.

The following amounts are included in the Group's financial statements as a result of proportionate consolidation:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	U.S.\$'000	(Restated) U.S.\$'000	(Restated) U.S.\$'000
<b>Statement of financial position</b>			
Fleet	91,124	92,450	101,555
Other non current asset	4,218	4,282	2,786
Current assets	8,781	11,871	6,102
Non-current liabilities	107,498	115,985	112,982
Current liabilities	10,891	11,316	11,700
<b>Income statement</b>			
Revenues	23,454	27,753	29,785
Expenses	20,026	32,686	37,398
<b>Cash flows of joint ventures</b>			
		<b>2010</b>	<b>2009</b>
Cash flows from operating activities		5,716	10,446
Cash flows from investing activities		(704)	2,426
Cash flows used in financing activities		(9,033)	(7,326)

#### 13. Goodwill

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	U.S.\$'000	(Restated) U.S.\$'000	(Restated) U.S.\$'000
<b>Cost</b>			
<b>At 1st January</b>	<b>6,272</b>	<b>6,272</b>	<b>6,272</b>
<b>Impairment</b>			
At 1st January	(6,272)	(4,131)	–
Impairment loss recognised in period	–	(2,141)	(4,131)
<b>At 31st December</b>	<b>(6,272)</b>	<b>(6,272)</b>	<b>(4,131)</b>
<b>Net book value</b>			
<b>At 31st December</b>	–	–	<b>2,141</b>

Goodwill has arisen on the acquisition of SCF Marpetrol, S. A. by Vestoro Holdings Limited on 2 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 SCF Marpetrol, S. A. 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.

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 13. Goodwill (continued)

At the end of the 2008 and 2009 financial reporting periods, management had assessed goodwill for impairment together with the carrying amount of these vessels compared to the higher of their market values and their value in use, as explained in Note 6, and concluded that goodwill allocated to certain vessels had been impaired. Consequently an impairment loss had been recognised in 2008 and 2009. 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. Non-current assets held for sale

	<b>Note</b>	<b>2010</b>	<b>2009</b>
		U.S.\$'000	<b>(Restated)</b>
			U.S.\$'000
<b>At 1st January</b>		<b>51</b>	<b>28</b>
Expenditure in period		–	23
Transfer from fleet	6	33,207	–
Transfer from drydock cost	6	980	–
Disposals		(51)	–
		<b>34,187</b>	<b>51</b>
<b>At 31st December</b>		<b>34,187</b>	<b>51</b>
Current insured value		39,000	–
Total deadweight tonnage (dwt)		119,970	–

Prior to the end of the reporting period the Group had made a decision to sell three oil product Handymax tankers. Hence, these vessels were actively marketed for sale at a price approximate to their market values.

Consequently these vessels had been classified as non-current assets held for sale as at 31 December 2010 and are presented separately in the Statement of Financial Position. Vessels are expected to be sold in 2011.

#### 15. Inventories

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000
Bunkers	13,145	14,497	8,535
Lubricants	6,640	6,421	6,651
Victualling and slopchest	626	619	555
Raw materials, spares and finished goods	2,895	3,577	1,985
	<b>23,306</b>	<b>25,114</b>	<b>17,726</b>
	<b>23,306</b>	<b>25,114</b>	<b>17,726</b>

The amounts expensed during the period are disclosed in Note 33, Voyage Expenses and Commissions, and Note 34 Vessels' Running Costs.

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 16. Trade and other receivables

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	U.S.\$'000	(Restated) U.S.\$'000	(Restated) U.S.\$'000
Amounts due from charterers	22,017	22,372	35,474
Allowance for credit losses	(898)	(1,084)	(927)
	<b>21,119</b>	<b>21,288</b>	<b>34,547</b>
Casualty and other claims	2,626	5,713	5,384
Guarantee deposits	5,637	3,414	781
Agents' balances	1,595	2,560	1,712
Receivables under High Court judgement award (Note 41)	25,414	–	–
Other debtors	8,176	7,697	13,486
Prepayments	3,782	5,867	3,367
Voyage suspense accounts	3,562	6,275	2,495
Receivables from Parent company	169	–	–
	<b>72,080</b>	<b>52,814</b>	<b>61,772</b>

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. Trade receivables are non-interest bearing. The estimated irrecoverable amounts due from charterers are provided for based on management's past experience.

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. U.S.\$12.8 million (2009 – U.S.\$15.2 million) of amounts due from charterers are neither past due nor impaired.

As at 31st December 2010, receivables with a carrying amount of \$8.3 million (2009 – \$6.14 million) included in amounts due from charterers are past due at the reporting date. The Group has not provided for these receivables as there has not been a significant change in credit quality and the amounts outstanding are still considered recoverable. The Group does not hold any collateral over these balances.

The ageing analysis of these receivables is as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000
Up to one month	3,345	3,429	7,873
One to two months	565	770	–
Two to three months	325	550	–
Three to four months	433	86	200
Four to five months	1,527	166	1,977
Five to six months	616	277	–
More than six months	1,496	865	–
	<b>8,307</b>	<b>6,143</b>	<b>10,050</b>

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 16. Trade and other receivables (continued)

Movement in the allowance for credit losses in respect of charterers:

	2010	2009
	U.S.\$'000	U.S.\$'000
<b>At 1st January 2010</b>	<b>1,084</b>	<b>927</b>
Amounts written off during the period	(197)	(47)
Amounts recovered during the period and recognised in the income statement	–	(421)
Increase in allowance recognised in the income statement	54	635
Exchange adjustments	(43)	(10)
<b>At 31st December 2010</b>	<b>898</b>	<b>1,084</b>

In determining the recoverability of a trade receivable, the Group performs a risk analysis considering the credit quality of the trade receivable, the age of the outstanding receivable and any past default experience. The concentration of credit risk is limited due to the customer base being large and unrelated. As at 31st December 2010, there were no charterers (2009 – one) with a balance of freight and hire due representing 9% or more of the total amounts due. Accordingly, management believes that there is no further credit provision required in excess of the allowance for credit losses.

#### 17. Share capital

Authorised, issued and fully paid share capital includes:

	Ordinary voting shares with nominal value of RUR 1 each		Preference non-voting class “A” shares with nominal value of RUR 1 each		Total
	Number	U.S.\$'000	Number	U.S.\$'000	U.S.\$'000
<b>Balance at 1st January 2010 and</b>	<b>375,840,500</b>	<b>13,346</b>	<b>36,819,922</b>	<b>1,309</b>	<b>14,655</b>
31st December 2010					
Buy-back	(67,355,706)	(2,390)	(2,652,438)	(94)	(2,484)
<b>Balance at 31st December 2010</b>	<b>308,484,794</b>	<b>10,956</b>	<b>34,167,484</b>	<b>1,215</b>	<b>12,171</b>

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

Holders of preference shares have no right of conversion or redemption, and are entitled to an annual dividend equal to the greater of 3% of the nominal values of preference shares and the dividend attributable to ordinary shareholders. If the dividend is not paid, preference shares carry the right to vote until the following Annual Shareholders' Meeting. The dividend is not cumulative. The preference shares also carry the right to vote in respect of issues that affect the interests of preference shareholders, including reorganisation and liquidation. In the event of liquidation, preference shareholders first receive any declared unpaid dividends and the liquidation proceeds determined in accordance with the Company's charter and Russian legislation. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 17. Share capital (continued)

On 1st March 2010 the Board of Directors resolved to buy back 10% of the remaining share capital, i. e. 41,266,042 ordinary shares (including 40 million shares from a subsidiary) at a fixed price RUR80 per share. The Company bought back 40,626,198 ordinary shares (including 40,000,000 shares from the subsidiary) in the total amount of U.S.\$104.8 million.

On 10th September 2010 the Company's Shareholders resolved in a General Meeting to hold buy-back of Novoship preference shares at the fixed price of RUR 21.66 per share (U.S.\$0.69 per share) and ordinary shares at a fixed price RUR80 per share. The Company bought back 26,729,508 of ordinary shares (including 26,347,613 shares from the subsidiary) and 2,652,438 of preference shares. As at 31st December 2010 only 381,895 of ordinary shares and 2,652,438 of preference shares were paid in the total amount of U.S.\$2.8 million.

On 19th October 2010 the Company's Shareholders resolved in a General Meeting to reduce the share capital of the Company through cancellation of the purchased shares. The share capital of the Company was reduced by the amount of U.S.\$2.5 million.

#### Treasury shares

As at 31st December 2010 the Group held 20,898,606 ordinary shares which comprise 6.8% of issued ordinary shares (31st December 2009 - 87,246,219 ordinary shares).

#### 18. Provision

	<b>SCF Marpetrol, S. A. provision (CEPSA charter)</b>	<b>Provision on Rosmorport legal case</b>	<b>Tax provision on JSC Novoship</b>	<b>Provision for litigation</b>	<b>Total</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
<b>At 1st January 2009</b>	<b>2,192</b>	–	<b>2,045</b>	–	<b>4,237</b>
Exchange difference	–	–	(59)	–	(59)
Arising during the period	175	–	–	–	175
<b>At 31st December 2009</b>	<b>2,367</b>	–	<b>1,986</b>	–	<b>4,353</b>
Exchange difference	–	12	(14)	–	(2)
Arising during the period	175	973	–	8,877	10,025
Reversal of provision	–	–	(464)	–	(464)
<b>At 31st December 2010</b>	<b>2,542</b>	<b>985</b>	<b>1,508</b>	<b>8,877</b>	<b>13,912</b>

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 19. Cash and bank deposits

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000
Cash and bank deposits	166,652	128,794	140,178
less bank deposits with maturity over 3 months, but less than 6 months	(6,562)	–	–
less retention accounts	(5,631)	(6,800)	(10,815)
less restricted deposits	(12,314)	(23,868)	(1,531)
<b>Cash and cash equivalents</b>	<b>142,145</b>	<b>98,126</b>	<b>127,832</b>
including			
cash on hand and at bank	100,088	53,689	27,123
Bank deposits	42,057	44,437	100,709

Restricted cash include cash on retention accounts that is accumulated to cover future loan and interest repayments in amount of U.S.\$5.6 million and restricted deposits in amount of U.S.\$12.3 million, which include U.S.\$8.3 million held as a guarantee for settlements in respects of legal claims (note 41).

Under terms of loan agreements (note 19), the Group has to maintain a minimum cash balance of U.S.\$38 million (2009 – U.S.\$46 million).

#### 20. Secured bank loans

The balances of the loans at 31st December 2010 which include the Group's share of loans of the joint venture are summarised as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	U.S.\$'000	(Restated) U.S.\$'000	(Restated) U.S.\$'000
Repayable:			
- within twelve months after the end of the reporting period	77,582	77,578	131,317
- between one to two years	117,632	77,612	77,632
- between two to three years	124,632	117,612	77,632
- between three to four years	88,545	124,611	77,632
- between four to five years	129,207	103,524	124,632
- after more than five years	98,770	227,995	258,254
	<b>636,368</b>	<b>728,932</b>	<b>747,099</b>
Less current portion	(77,582)	(77,578)	(131,317)
<b>Long-term balance</b>	<b>558,786</b>	<b>651,354</b>	<b>615,782</b>

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

As security for the loans lenders have first preferred mortgages on the Group's vessels with an aggregate market value as at 31st December 2010 of U.S.\$1.3 billion (2009 – U.S.\$1.4 billion).

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 20. Secured bank loans (continued)

The Group is subject to a number of covenants in relation to its borrowing facilities which if breached could result in its loans becoming immediately repayable. As at the period end the Group was not in breach of any of its bank loan covenants. At 31st December 2010, the Group had available U.S. \$253 million (2009: U.S. \$240 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

		<b>2010</b>	<b>2009 (Restated)</b>	<b>2008 (Restated)</b>
		U.S.\$'000	U.S.\$'000	U.S.\$'000
Contractual interest rate				
<b>Current portion of long term debt</b>				
<u>Secured bank loans:</u>				
	Variable at LIBOR+			
USD-denominated	0.675 - 0.9 %	66,354	66,350	120,093
USD-denominated	Fixed at 5.5%	11,228	11,228	11,224
		<b>77,582</b>	<b>77,578</b>	<b>131,317</b>
<b>Non-current portion of long term debt</b>				
<u>Secured bank loans:</u>				
	Variable at LIBOR+			
USD-denominated	0.675 - 0.9%	492,228	573,569	526,765
USD-denominated	Fixed at 5.5%	66,558	77,785	89,017
		<b>558,786</b>	<b>651,354</b>	<b>615,782</b>
<b>Total</b>		<b>636,368</b>	<b>728,932</b>	<b>747,099</b>

#### 21. Finance lease liabilities

	<b>2010</b>		<b>2009 (Restated)</b>		<b>2008 (Restated)</b>	
	<b>Present value of minimum lease payments</b>	<b>Minimum lease payments</b>	<b>Present value of minimum lease payments</b>	<b>Minimum lease payments</b>	<b>Present value of minimum lease payments</b>	<b>Minimum lease payments</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Repayable						
- within twelve months after the end of the reporting period	786	1,291	733	1,273	683	1,310
- between one to five years inclusive	6,493	6,932	7,279	8,211	8,011	9,393
	<b>7,279</b>	<b>8,223</b>	<b>8,012</b>	<b>9,484</b>	<b>8,694</b>	<b>10,703</b>
Future interest expense		(944)		(1,472)		(2,009)
		<b>7,279</b>		<b>8,012</b>		<b>8,694</b>

The Group, through the acquisition of SCF Marpetrol, S. A. in 2006, acquired obligations under two bareboat charter agreements entered into by SCF Marpetrol, S. A. 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.

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 21. Finance lease liabilities (continued)

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 SCF Marpetrol, S. A. has the option to extend the leases for two five year periods declarable in years eight and thirteen respectively.

Both SCF Marpetrol, S. A. 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.\$2.8 million to U.S.\$7.8 million.

#### 22. Retirement benefit obligations

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	U.S.\$'000	(Restated) U.S.\$'000	(Restated) U.S.\$'000
Post retirement pension benefit plans	6,941	4,287	4,491
Long-term service retirement benefit plans	3,233	3,347	4,046
<b>Present value of defined benefit obligation</b>	<b>10,174</b>	<b>7,634</b>	<b>8,537</b>
Fair value of plan assets	–	–	–
<b>Present value of unfunded obligation</b>	<b>10,174</b>	<b>7,634</b>	<b>8,537</b>
Less past service cost	(1,934)	(2,337)	(2,688)
Unrecognised actuarial (gains) / losses	–	–	–
<b>Net pension liability in the statement of financial position</b>	<b>8,240</b>	<b>5,297</b>	<b>5,849</b>

Post retirement service retirement benefit plans stipulate payment of a fixed amount of monthly pension for all retired employees who have completed a specified period of service with the subsidiary. The pension is paid over the life of the pensioners. In addition, the Company has a long-term service retirement benefit plan stipulating payment of a lump sum to employees who have completed a specified period of service upon their retirement. All defined benefit plans are unfunded. The plans do not have any assets.

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

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	U.S.\$'000
Present value of obligation at 1st January	4,287	4,491
Interest cost	326	382
Benefits paid	(879)	(658)
Past service costs	1,893	–
Exchange rate differences	(50)	(123)
Actuarial loss on obligation	1,364	195
	<b>6,941</b>	<b>4,287</b>

JSC Novoship

Notes to the consolidated financial statements (continued)

**22. Retirement benefit obligations (continued)**

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

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	U.S.\$'000
Present value of obligation at 1st January	3,347	4,046
Current service cost	154	154
Interest cost	162	240
Past service costs	–	–
Benefits paid	(547)	(135)
Exchange rate differences	(10)	(51)
Actuarial (gain) / loss on obligation	127	(907)
	<b>3,233</b>	<b>3,347</b>

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

	<b>Post retirement pension benefit plans</b>		<b>Long-term service retirement benefit plans</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Current service cost	–	–	154	154
Interest cost	326	382	162	240
Past service costs	1,893	–	403	351
Actuarial loss / (gain) recognised in period	1,364	195	127	(907)
Exchange rate differences	(50)	(123)	(10)	(51)
	<b>3,533</b>	<b>454</b>	<b>836</b>	<b>(213)</b>

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

	<b>2010</b>	<b>2009</b>
Discount rate for cash flows in Russian Roubles	8.00%	8.50%
Discount rate for cash flows in US Dollars	3.70%	4.10%
Future salary increases in Russian Roubles	5.00%	10.00%
Future salary increases in US Dollars	2.00%	2.00%
Future pension increases	4.00%	1.00%
Life expectancy in years of a male pensioner retiring at the age of 60	14	14
Life expectancy in years of a female pensioner retiring at the age of 55	23	23

The Group expects to contribute \$0.981 million to the defined benefit plan in 2011.

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	<b>(Restated)</b> U.S.\$'000
Present value of defined benefit obligation	10,174	7,634
Plan assets	–	–
(Deficit) / surplus	10,174	7,634
Experience adjustments on plan liabilities	573	(697)
Experience adjustments on plan assets	–	–

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 23. Deferred tax liabilities

Deferred tax arises mainly as a result of the activities of SCF Marpetrol, S. A. under the Spanish Corporate Tax Law and recognition of a deferred tax liability on return of M-vessels from the subsidiaries of Intrigue Shipping Inc to OJSC Novoship as disclosed in note 31:

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Vessels	1,381	1,575	(5,051)	(6,047)	(3,670)	(4,472)
Other assets / (liabilities)	82	472	(619)	(959)	(537)	(487)
<b>Net tax assets / (liabilities)</b>	<b>1,463</b>	<b>2,047</b>	<b>(5,670)</b>	<b>(7,006)</b>	<b>(4,207)</b>	<b>(4,959)</b>

The movement of temporary differences were as follows:

<b>At 31st December 2010</b>	<b>1-Jan-10</b>	<b>Charged to income</b>	<b>Exchange differences</b>	<b>31-Dec-10</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Deferred tax liabilities				
Vessels	(4,472)	809	(7)	(3,670)
Other assets / (liabilities)	(487)	(102)	52	(537)
	<b>(4,959)</b>	<b>707</b>	<b>45</b>	<b>(4,207)</b>

<b>At 31st December 2009</b>	<b>1-Jan-09</b>	<b>Charged to income</b>	<b>Exchange differences</b>	<b>31-Dec-09</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Deferred tax liabilities				
Vessels	(6,040)	1,639	(71)	(4,472)
Other assets / (liabilities)	(957)	(361)	831	(487)
	<b>(6,997)</b>	<b>1,278</b>	<b>760</b>	<b>(4,959)</b>

#### 24. Trade and other payables

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	U.S.\$'000	(Restated) U.S.\$'000	(Restated) U.S.\$'000
<b>Non-current liabilities</b>			
Other creditors	468	374	0
<b>Current liabilities</b>			
Trade creditors	13,738	17,896	18,203
Other creditors and accruals	17,840	20,455	23,611
Accrued interest	1,473	1,726	3,672
Deferred income	5,073	9,090	9,827
Payable to Parent company	582	529	–
	<b>38,706</b>	<b>49,696</b>	<b>55,313</b>

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 25. Derivative financial instruments

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.

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	<b>(Restated)</b> U.S.\$'000
<b>At 1st January</b>	<b>38,455</b>	<b>46,992</b>
(Released) / provided during the period and (credited) / debited to other comprehensive income	(1,003)	(475)
Premiums (paid) / received during the period and credited to the Income Statement	–	(10,101)
(Released) / provided for during the period and (credited) / debited to the Income Statement	5,335	2,039
<b>At 31st December</b>	<b>42,787</b>	<b>38,455</b>

All derivative financial instruments classified at fair value through profit or loss at 31st December 2010 and 31st December 2009 are interest rate financial instruments.

As at 31st December 2010 the Group had the following interest rate financial instruments:

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

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 25. Derivative financial instruments (continued)

Type of instrument	Notional amount 2010 U.S.\$'000	Notional amount 2009 U.S.\$'000	Interest rate	Expiry date
<b>Swaption</b>				
Swaption	50,000	50,000	4.00%	28th November 2011
Swaption	50,000	50,000	4.00%	27th November 2012
Swaption	50,000	50,000	4.00%	27th November 2013
Swaption	50,000	50,000	4.00%	28th November 2014
<b>Swaption</b>				
IRS	50,000	50,000	2.87%	18th January 2011
IRS	33,750	36,750	2.40%	29th November 2013
<b>Collar and knock in / out</b>				
Knock in floor	50,000	50,000	3.62%	25th February 2013
Knock out Cap	50,000	50,000	3.62%	25th February 2013

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

#### 26. Dividend

In accordance with the Russian legislation the Company's distributable reserves are limited to the balance of retained earnings U.S.\$12 million. (2009: U.S.\$76 million) as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

As at 31st December 2010 the Company had net profit of U.S.\$8.6 million (2009: U.S.\$74.6 million).

A dividend of U.S.\$0.03/RUR1.05 per share (2009: U.S.\$0.06/RUR2.05 per share) on both the ordinary and the preference share was declared and paid in 2010.

#### 27. General and administrative expenses

	2010 U.S.\$'000	2009 (Restated) U.S.\$'000
Administration expenses	14,481	13,177
Non-income based taxes	4,292	4,604
	<b>18,773</b>	<b>17,781</b>

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 27. General and administrative expenses (continued)

Administration expenses are analysed as follows:

	<b>2010</b>	<b>2009</b> <b>(Restated)</b>
	U.S.\$'000	U.S.\$'000
Head office costs	11,924	9,716
Overseas offices costs and other general expenses	1,486	2,425
Legal and professional fees	404	499
Audit and accountancy fees	667	537
	<b>14,481</b>	<b>13,177</b>

Non-income based taxes are analysed as follows:

	<b>2010</b>	<b>2009</b> <b>(Restated)</b>
	U.S.\$'000	U.S.\$'000
Russian Federation taxes		
- Unrecoverable value added tax	1,583	1,958
- Property tax	554	1,596
- Payroll taxes	1,167	899
- Other Russian taxes	988	151
<b>Non-income based taxes</b>	<b>4,292</b>	<b>4,604</b>

#### 28. Result on sale of assets

	<b>2010</b>	<b>2009</b> <b>(Restated)</b>
	U.S.\$'000	U.S.\$'000
Loss on disposal of vessels	16,930	2,035
(Gain) / loss on disposal of other assets	(3,094)	-
	<b>13,836</b>	<b>2,035</b>

The Group sold 7 vessels in 2010 with the cash proceeds of U.S.\$78.6 million resulting in a loss of U.S.\$16.9 million.

#### 29. Net other operating income

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

	<b>2010</b>	<b>2009</b> <b>(Restated)</b>
	U.S.\$'000	U.S.\$'000
Gross revenues	30,698	25,887
Cost of sales		
- Wages and salaries	(8,022)	(7,302)
- Social security costs	(1,910)	(1,777)
- Other cost of sales	(11,989)	(6,100)
Administrative expenses	(4,098)	(4,019)
Other operating expenses	(2,793)	(301)
<b>Net other operating income</b>	<b>1,886</b>	<b>6,388</b>

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 30. Employee costs

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

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	<b>(Restated)</b> U.S.\$'000
Seafarers		
- Wages and salaries	63,875	63,269
- Long-term service defined benefit plans	725	(433)
- Social security costs	772	993
	<b>65,372</b>	<b>63,829</b>
Shore based staff		
- Wages and salaries	21,619	19,650
- Long-term service defined benefit plans	(39)	31
- Social security costs	3,559	3,116
	<b>25,139</b>	<b>22,797</b>
<b>Total employee costs</b>	<b>90,511</b>	<b>86,626</b>

The number of employees employed by the Group at 31st December 2010 was 2,896 (2009 – 2,714) comprising ships' crew of 1,599 (2009 – 1,336) and shore-based staff of 1,297 (2009 – 1,378).

#### *Compensation of key management personnel*

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

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	U.S.\$'000
Short-term benefits	1,754	2,380
Post employment benefits	–	205
	<b>1,754</b>	<b>2,585</b>
<b>Number of individuals to whom remuneration was paid</b>	<b>12</b>	<b>13</b>

#### 31. Income taxes

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	<b>(Restated)</b> U.S.\$'000
Current tax expense	(17,679)	(5,431)
Deferred tax (income)/expense	707	1,278
<b>Income tax expense</b>	<b>(16,972)</b>	<b>(4,153)</b>

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 majority of subsidiaries are subject to registration and tonnage taxes, which have been included in the general and administrative expense in the accompanying Consolidated Statement of Income.

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 31. Income taxes (continued)

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% (2009 – 20%) on the profits arising on Russian operations, as adjusted for Russian fiscal purposes.

The income tax expense for the period is reconciled to the expected tax expense based on the Russian Federation tax rate as follows:

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	<b>(Restated)</b> U.S.\$'000
Profit before tax	25,593	78,797
Income tax using Russian Federation income tax rate of 20%	(5,119)	(15,759)
Tax effect of non-deductible expenses and non-taxable income	(1,014)	(5,866)
Tax on return of investments in T-vessels	(11,809)	–
Tax on return of investments in M-vessels	(3,368)	–
Tax effect of intercompany dividends	(3,600)	(1,800)
Effect of different tax rates in other tax jurisdictions: - Liberia, Malta, Marshall Islands and Spain	7,938	19,272
<b>Income tax expense</b>	<b>(16,972)</b>	<b>(4,153)</b>

### 32. Hire and freight revenue

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	<b>(Restated)</b> U.S.\$'000
Freight	262,684	242,419
Hire	237,456	259,886
Other income	16,310	10,614
	<b>516,450</b>	<b>512,919</b>

### 33. Voyage expenses and commissions

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	<b>(Restated)</b> U.S.\$'000
Port costs	60,131	54,243
Bunker	100,817	75,167
Commissions	15,128	14,143
	<b>176,076</b>	<b>143,553</b>

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Notes to the consolidated financial statements (continued)

**34. Vessels' running costs**

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	<b>(Restated)</b> U.S.\$'000
Crew costs	83,125	79,645
Technical costs	37,922	40,705
Insurance costs	13,188	11,955
State social contributions	772	993
Communication	838	835
Other	904	1,461
	<b>136,749</b>	<b>135,594</b>

**35. Cash generated from operations**

	<b>31st</b>	<b>31st</b>
	<b>December</b>	<b>December</b>
	<b>2010</b>	<b>2009</b>
	U.S.\$'000	U.S.\$'000
Profit for the period before income taxes	25,593	78,797
Share of gains in associates	(78)	(151)
Depreciation and amortisation	81,913	79,160
Vessels' impairment provision	22,035	4,303
Provision for impairment of tonnage under construction	–	(1,025)
Onerous contract provision	–	(1,172)
Vessels' drydock cost amortisation	18,530	20,184
Loss / (gain) on sale of assets	13,836	2,035
Gain on disposal of other investments	(1,170)	(406)
Interest expense	31,241	29,396
Bank and other interest income	(12,866)	(5,665)
Other financial expenses	3,102	2,946
(Gain) / loss on derivative financial instruments	5,335	(8,062)
Impairment of Goodwill	–	2,141
Foreign exchange (gains) / losses	2,895	7,334
Increase in provision for bad debts	54	214
Net other operating income	(1,886)	(6,388)
Other non-operating income, net	(3,682)	12,350
Operating cash flows before movements in working capital	187,977	219,696
Decrease in inventories	2,024	4,486
Decrease in trade and other receivables	14,489	18,595
(Decrease) / Increase in payables	(20,395)	(28,026)
<b>Cash generated from operations</b>	<b>184,095</b>	<b>214,751</b>

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 36. Significant subsidiary companies

In addition to the joint venture referred to in note 12, at 31st December 2010, the most significant subsidiaries of the Group comprised:

Name	Country of incorporation	Activity	Percentage of ownership (direct and indirect)
Intrigue Shipping Inc. and its subsidiaries	Liberia, Malta, UK	Holding company, assets management	100%
Novoship Holdings Ltd.	Cyprus	Assets management.	100%
Novoship (UK) Limited.	UK	Non-trading company.	100%
Vestoro Holdings Limited.	Cyprus	Assets management.	50%
SCF Marpetrol, S.A.	Spain	Shipowner and Shipmanager.	50%
Novoshipinvest Plus JSC	Russia	Management of non-core assets.	100%
Hotel Brigantina LLC	Russia	Hotel services	100%
Aquatics Center LLC	Russia	Aquatics and sport.	100%
FOTS LLC	Russia	Swimming pool	100%
Electro Radio Navigational Chamber LLC	Russia	Navigational equipment repairs, nautical charts and nautical publications corrections.	80%
Novomorsnab LLC	Russia	Forwarding and transshipment, agency services and shipchandlers.	100%
Ship Service Center LLC	Russia	Ship's life saving equipment repairs and maintenance.	100%
Novoship Training Center (Novoshiptraining)	Russia	Professional training and education of seafarers.	100%
Novoshipstroy LLC	Russia	Building and reconstruction services.	100%
Novotechservice LLC	Russia	Cleaning, offices and buildings maintenance.	100%
Novoross-Media LLC	Russia	Mass media	100%
Novoshipinvest LLC	Russia	Investment activities, Real estate development.	100%
JSC Commercial Sea Port of Sochi	Russia	Passenger sea port.	100%
Sochi Grand Marina LLC	Russia	Management of Sochi sea port modernization project.	100%

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 37. Financial risk management

##### a. Capital management

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

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

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

The Group monitors its capital structure on the basis of the net debt ratio 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 6 ("total adjusted capital"). Net debt is calculated as the total of secured bank loans and finance lease liabilities, disclosed in notes 19 and 20 of the financial statements respectively, less cash and bank deposits (Note 19). 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 the reporting period the Group's overall strategy remained unchanged from 2009. The net debt ratio at 31st December 2010 and at 31st December 2009 and the net adjusted debt ratio of the Group were as follows:

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	U.S.\$'000
Secured bank loans (Note 20)	636,368	728,932
Finance lease liabilities (Note 21)	7,279	8,012
Less: cash and bank deposits (Note 19)	(166,652)	(128,794)
<b>Net debt</b>	<b>476,995</b>	<b>608,150</b>
<b>Total equity</b>	<b>1,504,809</b>	<b>1,513,498</b>
<b>Total capital</b>	<b>1,981,804</b>	<b>2,121,648</b>
<b>Net debt ratio</b>	<b>24.07%</b>	<b>28.66%</b>
Total capital	1,981,804	2,121,648
Excess / (deficit) of market value of fleet over carrying value	10,801	(128,748)
<b>Total adjusted capital</b>	<b>1,992,605</b>	<b>1,992,900</b>
<b>Net adjusted debt ratio</b>	<b>23.94%</b>	<b>30.52%</b>

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 37. Financial risk management (continued)

#### b) Categories of financial instruments

	2010	2009
	U.S.\$'000	U.S.\$'000
<b>Financial assets</b>		
Cash and bank deposits	166,652	128,794
Loans and receivables	79,339	62,239
<b>Total financial assets</b>	<b>245,991</b>	<b>191,033</b>
Non-financial assets	2,013,329	2,165,302
<b>Total assets</b>	<b>2,259,320</b>	<b>2,356,335</b>
<b>Financial liabilities</b>		
Financial liabilities at fair value through profit or loss	42,787	38,455
Loans and payables	706,651	795,292
Amortised cost	–	–
<b>Total financial liabilities</b>	<b>749,438</b>	<b>833,747</b>
Non-financial liabilities	5,073	9,090
<b>Total liabilities</b>	<b>754,511</b>	<b>842,837</b>
Total equity	1,504,809	1,513,498
<b>Total equity and liabilities</b>	<b>2,259,320</b>	<b>2,356,335</b>

#### c) Fair value of financial instruments

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

	Carrying Value		Fair Value	
	2010	2009	2010	2009
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
<b>Financial liabilities</b>				
Analysed as follows:				
Secured bank loans at fixed interest rates	77,786	89,013	73,389	83,445
Secured bank loans at floating interest rates	558,582	639,919	478,003	545,252
	<b>636,368</b>	<b>728,932</b>	<b>551,392</b>	<b>628,697</b>

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

- ▶ The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- ▶ The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices (other than quoted prices included within Level 1) from observable current market transactions and dealer quotes for similar instruments.
- ▶ The fair values of 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.

Notes to the consolidated financial statements (continued)

**37. Financial risk management (continued)**

c) Fair value of financial instruments (continued)

**Fair value measurement of financial instruments recognised in the statement of financial position**

The following table provides an analysis of financial instruments as at 31st December 2010 and 31st December 2009 that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

<b>31st December 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
<b>Financial liabilities</b>				
Derivative financial instruments classified at fair value through profit or loss	–	42,787	–	42,787
Retirement benefit obligations	–	–	8,240	8,240
	–	42,787	8,240	51,027
<b>31st December 2009</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
<b>Financial liabilities</b>				
Derivative financial instruments classified at fair value through profit or loss	–	38,455	–	38,455
Retirement benefit obligations	–	–	5,297	5,297
	–	38,455	5,297	43,752

There were no transfers between Level 1 and 2 during the periods ended 31st December 2010 and 31st December 2009.

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.

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## Notes to the consolidated financial statements (continued)

### 37. Financial risk management (continued)

#### d) Financial risk factors (continued)

#### 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 Pound Sterling. The Group utilises its revenues in Euros and Russian Roubles to mitigate its exposure to foreign currency risk fluctuations.

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

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

	Liabilities		Assets	
	2010	2009	2010	2009
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Euro (EUR)	111	80	11,179	14,089
Russian Roubles (RUR)	8,951	15,930	5,418	17,455
Sterling Pounds (GBP)	–	20	13,981	–

Had the foreign exchange rate between the U.S. Dollar and the above currencies at 31st December 2010 increased by 10% (2009 – 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	
	2010	2009	2010	2009
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Euro (EUR)	10	7	1,016	1,281
Russian Roubles (RUR)	814	1,448	493	1,587
Sterling Pounds (GBP)	–	2	1,271	–

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 37. Financial risk management (continued)

#### d) Financial risk factors (continued)

Had the foreign exchange rate between the U.S. Dollar and the above currencies at 31<sup>st</sup> December 2010 decreased by 10% (2009 – 10%) with all other variables held constant, the effect would be to increase the monetary liabilities / assets, with a corresponding increase / decrease in profit as shown below.

	Liabilities		Assets	
	2010	2009	2010	2009
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Euro (EUR)	12	9	1,242	1,565
Russian Roubles (RUR)	995	1,770	602	1,939
Sterling Pounds (GBP)	–	2	1,553	–

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 2010 all of the Group's borrowings were denominated in U.S. Dollars.

The Group evaluates its interest rate exposure 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 strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial 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 financial 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 31<sup>st</sup> December 2010 was as follows:

	2010	2009
	U.S.\$'000	U.S.\$'000
Total floating rate borrowings (gross of direct issue costs)	559,518	641,082
Notional amount of floating to fixed rate swaps qualifying under IAS 32 / IAS 39 (Note 24)	(471,875)	(553,800)
<b>Net exposure to interest rate fluctuations qualifying under IAS 32 / IAS 39</b>	<b>87,643</b>	<b>87,282</b>
<b>% of floating rate borrowing exposed to interest rate fluctuations</b>	<b>16%</b>	<b>14%</b>

Notes to the consolidated financial statements (continued)

**37. Financial risk management (continued)**

d) Financial risk factors (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 2010 would increase / decrease approximately by U.S.\$3.9 million (2009 – increase / decrease by U.S.\$4.3 million), excluding any interest capitalised. This is mainly attributable to the exposure of the Group's floating rate borrowings not hedged,
- ▶ retained reserves and profit for the period ended 31st December 2010 would increase / decrease by approximately U.S.\$13.378 million and U.S.\$10.286 million respectively due to the change in the fair value of the derivative financial instruments held for trading through profit or loss.

The group's sensitivity to interest rate net exposure has increased during the period mainly due to the increase of the net exposure to interest rate fluctuations.

*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 61.8% of the vessels' total trading days were on time charter (2009 – 53.6%) representing 46,0% (2009 – 50.7%) of freight and hire revenue. As at 31st December 2010, 64.5% of the vessels were on time charter (2009 – 52.7%).

*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 16 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 (2009 – two) representing 49.2% and 23.5% (2009 – 14.6% and 12.3%) of total deposits of U.S.\$ 42 million (2009 – U.S.\$44.4 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 pay its liabilities earlier than expected.

JSC Novoship

Notes to the consolidated financial statements (continued)

**37. Financial risk management (continued)**

d) Financial risk factors (continued)

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.

	<b>Credit facilities</b>	<b>Drawn down</b>	<b>Available</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000
<b>31st December 2010</b>			
Secured bank loans	377,535	(124,160)	253,375
Secured revolving credit facilities	–	–	–
	<b>377,535</b>	<b>(124,160)</b>	<b>253,375</b>
<b>31st December 2009</b>			
Secured bank loans	379,535	(139,160)	240,375
Secured revolving credit facilities	–	–	–
	<b>379,535</b>	<b>(139,160)</b>	<b>240,375</b>

The following table details the Group's remaining contractual maturity for its 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.

	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
<b>At 31st December 2010</b>				
Trade and other payables	33,633	–	–	33,633
Interest payable on derivative instruments	17,095	31,388	–	48,483
Minimum lease payments under finance leases	1,291	6,932	–	8,223
Pension liabilities	1,369	4,041	4,764	10,174
Secured bank loans	77,582	460,016	98,770	636,368
Interest payable on secured bank loans	9,559	21,670	2,502	33,731
	<b>140,529</b>	<b>524,047</b>	<b>106,036</b>	<b>770,612</b>
<b>At 31st December 2009</b>				
Trade and other payables	40,606	–	–	40,606
Interest payable on derivative instruments	17,772	30,711	–	48,483
Minimum lease payments under finance leases	1,273	8,211	–	9,484
Pension liabilities	1,704	4,000	1,930	7,634
Secured bank loans	77,578	423,359	227,995	728,932
Interest payable on secured bank loans	11,140	30,106	6,886	48,132
	<b>150,073</b>	<b>496,387</b>	<b>236,811</b>	<b>883,271</b>

The Group's contractual commitments under its newbuilding programme referred to in note 7 are to be paid in 2011-2013.

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 38. Earnings per share

Earnings per share is calculated by dividing the profit attributable to ordinary shareholders adjusted for dividends on preference shares by the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

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

	<b>Ordinary shares 2010</b>	<b>Ordinary shares 2009</b>
Issued shares at 1st January	375,840,500	375,840,500
Effect of own shares held	(20,898,606)	(87,246,219)
Effect of buy-back	(25,973,074)	–
<b>Weighted average number of shares for the end of reporting period</b>	<b>328,968,820</b>	<b>288,594,281</b>

The following reflects the income and share data used in the basic earnings per share computation:

	<b>2010</b>	<b>2009 (Restated)</b>
	U.S.\$'000	U.S.\$'000
(Loss) / Profit for the year:	8,621	74,644
less dividends on preference shares	(34)	(1,172)
<b>(Loss) / Profit for the period attributable to ordinary equity holders</b>	<b>8,587</b>	<b>73,472</b>
Weighted average number of ordinary shares	328,968,820	288,594,281
<b>Basic (loss) / earning per ordinary share</b>	<b>U.S. \$0.03</b>	<b>U.S.\$0.25</b>

#### 39. Business segmental analysis

For management purposes, the Group is organised into business units based on the main types of activities and has two reportable operating segments as follows:

- ▶ Crude oil transportation. This segment transports mainly crude oil for the group's customers worldwide. As of 31st December 2010, the group's fleet in this segment consisted of 34 crude oil carriers (2009 – 32).
- ▶ Product tanker MR size. This segment transports mainly oil products for the group's customers worldwide. As of 31st December 2010, the group's fleet in this segment consisted of 33 oil carriers (2009 – 23).
- ▶ Other (<10% of revenue). This segment comprises bulk cargo carriers primarily for the transportation of coal. As of 31st December 2010, this segment's fleet consisted of one dry cargo carriers (2009 – three).

Management monitors the profit of vessels' trading of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However Group financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments.

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 39. Business segmental analysis (continued)

No operating segments have been aggregated to form the above reportable operating segments.

Management considers the global market as one geographical segment and does not therefore analyse geographical segment information on revenue from customers or non-current segment assets.

Year ended 31st December 2010

	<b>Crude oil tanker</b>	<b>Product tanker MR size</b>	<b>Other</b>	<b>Consolidated</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Freight revenue	200,893	60,324	1,467	262,684
Hire revenue	147,418	87,187	2,851	237,456
Other income	12,335	3,834	141	16,310
<b>Total revenue</b>	<b>360,646</b>	<b>151,345</b>	<b>4,459</b>	<b>516,450</b>
Voyage expenses and commissions	(133,142)	(42,027)	(907)	(176,076)
Vessels' running costs	(75,578)	(59,689)	(1,482)	(136,749)
Vessels' drydock cost amortisation	(9,414)	(8,552)	(564)	(18,530)
<b>Profit on vessels' trading</b>	<b>142,512</b>	<b>41,077</b>	<b>1,506</b>	<b>185,095</b>
<b>Other operating expenses</b>				
Vessels' depreciation	(51,920)	(26,157)	(390)	(78,467)
Vessels' impairment provision	–	(22,035)	–	(22,035)
General and administrative expenses	(384)	(1,977)	–	(2,361)
<b>Unallocated expenses</b>				
Other depreciation	–	–	(3,446)	(3,446)
Bad and doubtful debts	–	–	(54)	(54)
General and administrative expenses	–	–	(16,412)	(16,412)
<b>Profit from vessels' operations</b>	<b>90,208</b>	<b>(9,092)</b>	<b>(18,796)</b>	<b>62,320</b>
<b>Operating assets</b>	<b>1,617,232</b>	<b>410,080</b>	<b>157,137</b>	<b>2,184,449</b>
<b>Operating liabilities</b>	<b>(17,563)</b>	<b>(16,822)</b>	<b>(20,308)</b>	<b>(54,693)</b>

JSC Novoship

Notes to the consolidated financial statements (continued)

**39. Business segmental analysis (continued)**

Year ended 31st December 2009

	<b>Crude oil tanker</b>	<b>Product tanker MR size</b>	<b>Other</b>	<b>Consolidated</b>
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Freight revenue	157,190	75,778	9,451	242,419
Hire revenue	147,635	104,223	8,028	259,886
Other income	6,289	4,233	92	10,614
<b>Total revenue</b>	<b>311,114</b>	<b>184,234</b>	<b>17,571</b>	<b>512,919</b>
Voyage expenses and commissions	(92,243)	(45,576)	(5,734)	(143,553)
Vessels' running costs	(66,378)	(60,845)	(8,371)	(135,594)
Vessels' drydock cost amortisation	(8,976)	(9,857)	(1,351)	(20,184)
<b>Profit on vessels' trading</b>	<b>143,517</b>	<b>67,956</b>	<b>2,115</b>	<b>213,588</b>
<b>Other operating expenses</b>				
Vessels' depreciation	(46,526)	(28,533)	(535)	(75,594)
Vessels' impairment provision	–	(4,303)	–	(4,303)
General and administrative expenses	(380)	(2,200)	–	(2,580)
<b>Unallocated expenses</b>				
Other depreciation	–	–	(3,566)	(3,566)
Bad and doubtful debts	–	–	(214)	(214)
General and administrative expenses	–	–	(15,201)	(15,201)
<b>Profit from vessels' operations</b>	<b>96,611</b>	<b>32,920</b>	<b>(17,401)</b>	<b>112,130</b>
<b>Operating assets</b>	<b>1,580,578</b>	<b>620,854</b>	<b>111,531</b>	<b>2,312,963</b>
<b>Operating liabilities</b>	<b>(23,743)</b>	<b>(25,224)</b>	<b>(14,412)</b>	<b>(63,379)</b>

Reconciliation of assets

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	U.S.\$'000
<b>Segment operating assets</b>	<b>2,184,449</b>	<b>2,312,963</b>
Other fixed assets	22,699	24,416
Investment property	1,062	1,340
Other fixed assets under construction	8,427	6,981
Investment in associates	1,237	1,159
Investments	4,362	7,402
Long term receivables	2,491	1,779
Current tax receivable	406	244
Non-current assets held for sale	34,187	51
<b>Group operating assets</b>	<b>2,259,320</b>	<b>2,356,335</b>

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 39. Business segmental analysis (continued)

##### Reconciliation of liabilities

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	U.S.\$'000
<b>Segment operating liabilities</b>	<b>(54,693)</b>	<b>(63,379)</b>
Secured bank loans	(636,368)	(728,932)
Deferred tax liabilities	(4,207)	(4,959)
Provision	(13,912)	(4,353)
Current tax payable	(218)	(411)
Derivative financial instruments	(42,787)	(38,455)
Amount due to minority shareholders	(2,326)	(2,348)
<b>Group operating liabilities</b>	<b>(754,511)</b>	<b>(842,837)</b>

##### Reconciliation of profit

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	U.S.\$'000
<b>Segment profit</b>	<b>62,320</b>	<b>112,130</b>
Reversal of impairment of vessels under construction	–	1,025
Release of onerous contract provision	–	1,172
(Loss) / gain on sale of assets	(13,836)	(2,035)
Gain on disposal of investments	1,170	406
Net other operating income	1,886	6,388
Other taxes	(3,125)	(3,705)
Share of gains in associated undertakings	78	151
Interest expense	(31,241)	(29,396)
Bank and other interest income	12,866	5,665
Other financial expenses	(3,102)	(2,946)
Other non-operating (expenses) / income	3,682	(12,350)
Gain / (loss) on derivative financial instruments held for trading	(5,335)	8,062
Impairment of goodwill	–	(2,141)
Differences on foreign exchange	(2,895)	(7,334)
Income taxes	(16,972)	(4,153)
<b>Group profit</b>	<b>5,496</b>	<b>70,939</b>

#### 40. Contingent liabilities and commitments

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 40. Contingent liabilities and commitments (continued)

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

##### a. Contingent liabilities

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group are incorporated in relatively low tax jurisdictions and a significant portion of the Group's profit is realised by these companies. Generally, in most high tax rate jurisdictions a foreign legal entity may be required to pay income tax if it is a tax resident of such jurisdiction or if its activities constitute a permanent establishment in such a jurisdiction. Management believes that the Group's shipping and holding companies incorporated in low-tax jurisdictions are not subject to taxes outside their countries of incorporation. 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, though management interpretation may be different from that of tax authorities.

##### b. Capital commitments

The Group's capital commitments arise in respect of new vessel buildings and Sochi Grand Marine project and are payable as follows:

	<b>31st December 2010</b>	<b>31st December 2009</b>
	U.S.\$'000	U.S.\$'000
Within 1 year	29,821	56,610
Within 2 to 5 years	105,100	12,135
	<b>134,921</b>	<b>68,745</b>

At 31st December 2010 the Group had outstanding capital commitments in respect of the following contracts:

In July and September 2010 the Group entered into shipbuilding contracts for the construction of four bulk carriers of 75,000 dwt each at the shipyards of Hyundai Mipo Dockyard Co., Ltd., Korea for U.S.\$160.4 million. Payment terms for these vessels are approximately 20% upon signing of the contract and presentation of refund guarantee by the builder, a further three instalments of approximately 15% each at the defined stages of construction and approximately 35% on delivery. The outstanding commitment under these contracts, together with additional work ordered, at 31st December 2010 is U.S.\$128.8 million. The vessels are due for delivery in 2013.

On 15th January 2010 the Company registered a subsidiary Sochi Grand Marine LLC with a share capital of RUR30 million (approximately U.S.\$1 million). The share capital is divided between JSC Novoship (25% of share capital) and JSC Morport Sochi (75% of share capital) which is in its turn a 100% subsidiary of JSC Novoship. It is planned by the Group that Sochi Grand Marine will operate as a managing company for construction and development of Olympic sites for the 2014 Winter Olympic Games. Total capital commitment of the project in the total amount of U.S.\$12 million (of which U.S. \$6.1 million is outstanding at 31st December 2010).

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 40. Contingent liabilities and commitments (continued)

c. Operating lease commitments – where a Group company is a lessor

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

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	U.S.\$'000
Within 1 year	99,564	143,150
Within 2 to 5 years	20,178	86,167
After 5 years	–	3,267
	<b>119,742</b>	<b>232,584</b>

#### 41. Contingent assets

During 2005 through to 2009, following a review of the Group's operations, in conjunction with the restructuring of the Group's business, some irregularities and alleged fraud were discovered which resulted in the Group's newly appointed management filing claims in London for losses arising out of various transactions concerning the Group charters and sale and purchase that had taken place during 2001 through to 2005. The losses were estimated as being in the region of between \$70 million to \$160 million before interest.

In 2008 and 2009 the Group reached agreements with two third parties in full settlement of claims filed against them in London resulting in a revised balance of the claims filed of between \$58.0 - \$148.0 million again before interest.

The trial for the claims filed commenced at the High Court in London in October 2009 and concluded in mid-2010. Judgment was handed down on 10 December 2010. The Group was successful on a number of claims, and unsuccessful on a number of others. In respect of the successful claims which resulted from fraudulent action, the Group has been awarded principal and interest totalling approximately to \$25.4 million against certain of the Defendants. Interest has been awarded at 3-month \$ LIBOR plus 2.5% at quarterly rests.

The Group has also been awarded approximately \$3.3 million plus interest of approximately \$1.4 million against another Defendant. Management is looking at various options in enforcing the judgment. Consequently these amounts have not been recognised in the Income Statement for the period.

A total amount of \$15.5 million (2009 - \$13.7 million) relating to legal costs and provisions for the costs of certain of the Defendants in the unsuccessful claims has been expensed in the Income Statement and is included in the line "Other non-operating income/(expenses)

The Group will be seeking permission from the Court of Appeal to appeal part of the judgment in relation to costs.

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 41. Contingent assets (continued)

In addition, in late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Limited ("NOUK"). NOUK filed claims in London in December 2006 and joined further defendants. Related proceedings have also been commenced in Nevis, Guernsey and Jersey. The claims, which relate to a number of charters entered into between 2002 to 2004, are currently advanced in the region of \$ 29 and 37 million, but this figure will increase if the claim is amended, plus interest. The trial has been scheduled to take place in June 2011. If the Group is unsuccessful in its claim this may result in a costs liability to the Defendants of in excess of \$2.8 million. In early 2010 NOUK reached a settlement with Odin Marine Inc. on terms that are confidential between the parties.

Proceedings have also been brought by NOUK in Nevis against third parties in respect of claims for secret commissions for charters entered into between 2003 to 2006 in the amount of approximately \$0.6 million plus interest. If unsuccessful, the Group may face a costs liability of in the region of \$0.5 million.

### 42. Related party transactions

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

	<b>2010</b>	<b>2009</b>
	U.S.\$'000	U.S.\$'000
Cash in government-controlled banks	38,928	15,318
Interest income from the government-controlled banks	1,638	3,035
Revenue from Parent company for charts and publications	816	733
Commissions paid to Parent company for commercial management	3,724	3,217
Receivables from Parent company	169	–
Payable to Parent company	582	529

### 43. Correction of errors

In the course of preparation of the financial statements for 2010, the Group identified that it made the significant errors related to comparative information for 2009 and 2008. In order to correct these errors, the Group restated its financial statements as at 31st December 2009, 31st December 2008 and for the period ended 31st December 2009:

- 1) The Group did not account for decrements of employees' turnover and mortality in pension liability calculation as at 31st December 2009 and 31st December 2008. Besides, the life expectancy was set irrespective of pensioners' age and sex and no calculation for obligation related to funeral compensation was performed. As a result of the correction of these errors, the pension liability increased by U.S.\$154 and U.S.\$2,088, respectively. Besides, in the restated financial statements the Group presented retirement benefit obligation net of past service costs.
- 2) The Group did not record an accrual for unused vacation of OJSC Novoship as at 31st December 2009 and 31st December 2008. Correction of the error resulted in an increase in accounts payable of U.S.\$462.

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### 43. Correction of errors (continued)

- 3) The functional currency of SCF Marpetrol, S.A. has been changed from EURO to US Dollar. The key reasons for the change are as follows:
  - ▶ the macro market in which the business trades is an international shipping market which is a dollar denominated sector,
  - ▶ in the last 2 years over 58% of the revenues of SCF Marpetrol, S.A. are denominated in US Dollars,
  - ▶ all loans/financing is performed in US Dollars,
  - ▶ the business keeps its cash balances substantially in US Dollars, not EUROS. As a result of the change in functional currency as at 31st December 2009 retained earnings decreased by U.S.\$2,521 (2008: U.S.\$2,343), currency reserve decreased by U.S.\$ 5,718 (2008: U.S.\$4,165) and hedging reserve increased by U.S.\$354 (2008: U.S.\$437).
- 4) The Group did not record bunker purchase and consumption related to 2009 as at 31st December 2009. As a result of the correction of the error vessel's running expenses increased by U.S.\$1,281 in 2009.
- 5) The Group recognized the receivables from insurance companies not taking into account the amounts of deductibles (franchise). Besides, the Group did not write off unrecoverable insurance compensations. As a result of the correction of these errors the insurance receivables decreased by U.S.\$1,384 (2008: U.S.\$500) as at 31st December 2009 and vessel's running expenses increased by U.S.\$884 in 2009.
- 6) As at 31st December 2008 the Group recognised certain warehouses and administrative buildings as assets held for sale. The assets were not sold at the end of the year 2010. As a result of the correction of the error the cost of property, plant and equipment increased by U.S.\$5,500 and U.S.\$5,147 as at 31st December 2009 and 31st December 2008, respectively. Additional depreciation charge in the amount of U.S.\$332 was recognised in 2009.
- 7) The Group included long term accounts receivable from students to short term receivables as at 31st December 2009. As a result of the correction of the error long term receivables increased by U.S.\$522 as at 31st December 2009.
- 8) The Group included commercial management expenses to general and administrative expenses while these expenses represent voyage costs. As a result of the correction of the error voyage expenses increased by U.S.\$3,217 in 2009.
- 9) The Group included a net amount of revenues and expenses relating to operations of a recreation center Moryak and a maritime cultural center to general and administrative expenses while the operations refer to other operating activities of the Group. As a result of the correction of the error net other operating income increased by U.S.\$1,934 in 2009.
- 10) The Group included deferred taxes' balances to current profit tax receivables and payables. As a result of the correction of the error current profit tax receivables decreased by U.S.\$739 (2008: U.S.\$873) and current profit tax payables decreased by U.S.\$318 (2008: U.S.\$401) as at 31st December 2009.
- 11) The Group included veteran pension costs to other non-operating expenses (charity) while these expenses represent running costs. As a result of the correction of the error running expenses increased by U.S.\$1,265 in 2009.

Notes to the consolidated financial statements (continued)

**43. Correction of errors (continued)**

- 12) The Group did not account for compensation for delay in delivery of vessels NS Point and NS Parade as a reduction of a cost of a vessel as at 31st December 2009. As a result of the correction of the error the cost of vessels decreased by U.S.\$909, the accounts receivable increased by U.S.\$614 and other non-operating income/expenses, net increased by U.S.\$295.
- 13) The adjustments have been made in connection with the treatment of various aspects relating to the legal claims explained in note 41. Following the conclusion of the litigation in 2010 the accounting treatment in connection with the various components of the litigation was re-assessed. The following corrections have been made as prior year adjustments:
- ▶ The outcome of the litigation confirmed the group's view that the cost of certain vessels had been overstated. Accordingly the relevant amounts have been expensed in the periods in which they were incurred, (in accordance with paragraph 5 of IAS 8) in the majority of cases prior to 31st December 2007.
  - ▶ In prior years, compensation received under out of court settlements with various parties to the litigation was recognised and credited against the carrying value of certain vessels in the balance sheet on the grounds that the cost of these vessels had been overstated by U.S.\$3,072 and U.S.\$3,229 as at 31st December 2009 and 31st December 2008, respectively. Due to the adjustment noted immediately above, the overstatement of the carrying value of the vessels is no longer recognised in the balance sheet. Accordingly the compensation received (including interest) has been credited to the income statement in the period in which it was received.

As a result of the correction of prior year errors retained earnings decreased by U.S.\$9.5 million (0.6%) and U.S.\$8.6 million (0.6%) as at 31st December 2009 and 31st December 2008. Total assets decreased by U.S.\$19.7 million (0.8%) and U.S.\$18.7 million (0.8%) as at 31st December 2009 and 31st December 2008.

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 43. Correction of errors (continued)

Statement of financial position as at 31st December 2009	As previously reported	(1), (11)	(2)	(3)	(4)	(5)	(6)	(7)-(10)	(12)	(13)	As restated
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
<b>Non-current assets</b>											
Fleet	1,941,490	-	-	(9,761)	-	-	-	-	(909)	(3,072)	1,927,748
Vessels under construction	178,493	-	-	-	-	-	-	-	-	-	178,493
Other fixed assets	19,234	-	-	14	-	-	5,168	-	-	-	24,416
Investment property	1,340	-	-	-	-	-	-	-	-	-	1,340
Other fixed assets under construction	7,036	-	-	(55)	-	-	-	-	-	-	6,981
Investment in associates	1,159	-	-	-	-	-	-	-	-	-	1,159
Goodwill	0	-	-	-	-	-	-	-	-	-	0
Investments	4,187	-	-	-	-	-	-	-	-	-	4,187
Retirement benefit plans	3,590	(3,590)	-	-	-	-	-	-	-	-	0
Long term receivables	1,257	-	-	-	-	-	-	522	-	-	1,779
<b>Current assets</b>											
Inventories	25,114	-	-	-	-	-	-	-	-	-	25,114
Trade and other receivables	55,325	-	-	(17)	(463)	(1,384)	-	(1,261)	614	-	52,814
Current tax receivable	237	-	-	7	-	-	-	-	-	-	244
Investments	3,215	-	-	-	-	-	-	-	-	-	3,215
Cash and cash equivalents	128,794	-	-	-	-	-	-	-	-	-	128,794
Non-current assets held for sale	5,551	-	-	-	-	-	(5,500)	-	-	-	51
<b>Non-current liabilities</b>											
Secured bank loans	(651,352)	-	-	(2)	-	-	-	-	-	-	(651,354)
Finance lease liabilities	(7,181)	-	-	(98)	-	-	-	-	-	-	(7,279)
Retirement benefit obligations	(8,733)	3,436	-	0	-	-	-	-	-	-	(5,297)
Deferred tax liabilities	(9,038)	-	-	3,658	-	-	-	421	-	-	(4,959)
Provision	-	-	-	(2,367)	-	-	-	(1,986)	-	-	(4,353)
Other non-current liabilities	(2,323)	-	-	(37)	-	-	-	1,986	-	-	(374)
<b>Current liabilities</b>											
Trade and other payables	(49,391)	-	(462)	657	(818)	-	-	318	-	-	(49,696)
Secured bank loans	(77,684)	-	-	106	-	-	-	-	-	-	(77,578)
Finance lease liabilities	(771)	-	-	38	-	-	-	-	-	-	(733)
Current tax payable	(389)	-	-	(22)	-	-	-	-	-	-	(411)
Provision for onerous contracts	0	-	-	-	-	-	-	-	-	-	0
Liability to buyback shares	0	-	-	-	-	-	-	-	-	-	0
Derivative financial instruments	(38,449)	-	-	(6)	-	-	-	-	-	-	(38,455)
Amount due to minority shareholders	(2,348)	-	-	-	-	-	-	-	-	-	(2,348)
<b>Movement in equity</b>	<b>1,528,363</b>	<b>(154)</b>	<b>(462)</b>	<b>(7,885)</b>	<b>(1,281)</b>	<b>(1,384)</b>	<b>(332)</b>	<b>0</b>	<b>(295)</b>	<b>(3,072)</b>	<b>1,513,498</b>
<b>Capital and reserves</b>											
Share capital	(14,655)	-	-	-	-	-	-	-	-	-	(14,655)
Treasury shares	3,096	-	-	-	-	-	-	-	-	-	3,096
Hedging reserve	1,357	-	-	(354)	-	-	-	-	-	-	1,003
Fair value reserve	(1,280)	-	-	-	-	-	-	-	-	-	(1,280)
Currency reserve	(4,124)	-	-	5,718	-	-	-	-	-	-	1,594
Retained earnings	(1,512,526)	154	462	2,521	1,281	1,384	332	-	295	3,072	(1,503,025)
Non-controlling interests	(231)	-	-	-	-	-	-	-	-	-	(231)
	<b>(1,528,363)</b>	<b>154</b>	<b>462</b>	<b>7,885</b>	<b>1,281</b>	<b>1,384</b>	<b>332</b>	<b>0</b>	<b>295</b>	<b>3,072</b>	<b>(1,513,498)</b>

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 43. Correction of errors (continued)

Income statement for the year ended as at 31st December 2009	As previously reported	(1), (11)	(2)	(3)	(4)	(5)	(6)	(7)-(10)	(12)	(13)	As restated
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
Freight and hire revenue	513,094	–	–	(175)	–	–	–	–	–	–	512,919
Voyage expenses and commissions	(140,336)	–	–	–	–	–	–	(3,217)	–	–	(143,553)
Vessels' running costs	(134,145)	708	–	8	(1,281)	(884)	–	–	–	–	(135,594)
Vessels' drydock cost amortisation	(20,287)	–	–	103	–	–	–	–	–	–	(20,184)
Vessels' depreciation	(76,451)	–	–	700	–	–	–	–	–	157	(75,594)
Vessels' impairment provision	(8,994)	–	–	4,691	–	–	–	–	–	–	(4,303)
Other depreciation	(3,022)	–	–	(8)	–	–	(332)	–	–	–	(3,362)
Investment property depreciation	(204)	–	–	–	–	–	–	–	–	–	(204)
Allowance for credit losses	(245)	–	–	31	–	–	–	–	–	–	(214)
General and administrative expenses	(15,226)	203	–	(4,041)	–	–	–	1,283	–	–	(17,781)
Reversal of impairment of vessels under construction	1,025	–	–	–	–	–	–	–	–	–	1,025
Release of onerous contract provision	1,172	–	–	–	–	–	–	–	–	–	1,172
(Loss) / gain on sale of assets	(2,035)	–	–	–	–	–	–	–	–	–	(2,035)
Gain on disposal of investments	406	–	–	–	–	–	–	–	–	–	406
Net other operating income	4,649	(195)	–	–	–	–	–	1,934	–	–	6,388
Other taxes	(3,705)	–	–	3,705	–	–	–	–	–	–	0
Share of gains in associated undertakings	151	–	–	0	–	–	–	–	–	–	151
Interest expense	(29,996)	–	–	600	–	–	–	–	–	–	(29,396)
Bank and other interest income	5,647	–	–	18	–	–	–	–	–	–	5,665
Other financial expenses	(2,191)	(83)	–	(672)	–	–	–	–	–	–	(2,946)
Other non-operating (expenses) / income	(13,327)	1,265	–	7	–	–	–	–	(295)	–	(12,350)
Gain / (loss) on derivative financial instruments held for trading	7,881	–	–	181	–	–	–	–	–	–	8,062
Impairment of goodwill	–	–	–	(2,141)	–	–	–	–	–	–	(2,141)
Differences on foreign exchange	(3,510)	36	–	(3,860)	–	–	–	–	–	–	(7,334)
Income taxes	(4,828)	–	–	675	–	–	–	–	–	–	(4,153)
<b>Profit for the period</b>	<b>75,523</b>	<b>1,934</b>	<b>0</b>	<b>(178)</b>	<b>(1,281)</b>	<b>(884)</b>	<b>(332)</b>	<b>0</b>	<b>(295)</b>	<b>157</b>	<b>74,644</b>

# JSC Novoship

## Notes to the consolidated financial statements (continued)

### 43. Correction of errors (continued)

Statement of financial position as at 31st December 2008	As previously reported	(1), (11)	(2)	(3)	(4)	(5)	(6)	(7)-(10)	(12)	(13)	As Restated
	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000	U.S.\$'000
<b>Non-current assets</b>											
Fleet	1,687,138	-	-	(12,055)	-	-	-	-	-	(3,229)	1,671,854
Vessels under construction	426,047	-	-	-	-	-	-	-	-	-	426,047
Other fixed assets	19,987	-	-	-	-	-	5,147	-	-	-	25,133
Investment property	1,330	-	-	-	-	-	-	-	-	-	1,330
Other fixed assets under construction	12,223	-	-	-	-	-	-	-	-	-	12,223
Investment in associates	1,008	-	-	-	-	-	-	-	-	-	1,008
Goodwill	0	-	-	2,141	-	-	-	-	-	-	2,141
Investments	1,475	-	-	(469)	-	-	-	-	-	-	1,006
Retirement benefit plans	4,044	(4,044)	-	-	-	-	-	-	-	-	0
Long term receivables	0	-	-	-	-	-	-	-	-	-	0
<b>Current assets</b>											
Inventories	17,726	-	-	-	-	-	-	-	-	-	17,726
Trade and other receivables	62,054	-	-	218	-	(500)	-	-	-	-	61,772
Current tax receivable	2,774	-	-	109	-	-	-	(873)	-	-	2,010
Investments	7,503	-	-	-	-	-	-	-	-	-	7,503
Cash and cash equivalents	140,178	-	-	-	-	-	-	-	-	-	140,178
Non-current assets held for sale	5,175	-	-	-	-	-	(5,147)	-	-	-	28
<b>Non-current liabilities</b>											
Secured bank loans	(616,192)	-	-	410	-	-	-	-	-	-	(615,782)
Finance lease liabilities	(7,950)	-	-	(61)	-	-	-	-	-	-	(8,011)
Retirement benefit obligations	(7,805)	1,956	-	-	-	-	-	-	-	-	(5,849)
Deferred tax liabilities	(12,093)	-	-	4,624	-	-	-	472	-	-	(6,997)
Provision	(2,045)	-	-	(2,192)	-	-	-	-	-	-	(4,237)
Other non-current liabilities	0	-	-	-	-	-	-	-	-	-	0
<b>Current liabilities</b>											
Trade and other payables	(54,861)	-	(462)	9	-	-	-	-	-	-	(55,313)
Secured bank loans	(131,370)	-	-	53	-	-	-	-	-	-	(131,317)
Finance lease liabilities	(733)	-	-	50	-	-	-	-	-	-	(683)
Current tax payable	(1,839)	-	-	1,095	-	-	-	401	-	-	(343)
Provision for onerous contracts	(1,172)	-	-	-	-	-	-	-	-	-	(1,172)
Liability to buyback shares	(36,945)	-	-	-	-	-	-	-	-	-	(36,945)
Derivative financial instruments	(46,989)	-	-	(3)	-	-	-	-	-	-	(46,992)
Amount due to minority shareholders	(1,711)	-	-	-	-	-	-	-	-	-	(1,711)
<b>Movement in equity</b>	<b>1,466,957</b>	<b>(2,088)</b>	<b>(462)</b>	<b>(6,071)</b>	<b>0</b>	<b>(500)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(3,229)</b>	<b>1,454,607</b>
<b>Capital and reserves</b>											
Share capital	(17,795)	-	-	-	-	-	-	-	-	-	(17,795)
Treasury shares	6,022	-	-	-	-	-	-	-	-	-	6,022
Hedging reserve	1,915	-	-	(437)	-	-	-	-	-	-	1,478
Fair value reserve	(141)	-	-	-	-	-	-	-	-	-	(141)
Currency reserve	(892)	-	-	4,165	-	-	-	-	-	-	3,273
Retained earnings	(1,455,872)	2,088	462	2,343	-	500	-	-	-	3,229	(1,447,250)
Non-controlling interests	(194)	-	-	-	-	-	-	-	-	-	(194)
	<b>(1,466,957)</b>	<b>2,088</b>	<b>462</b>	<b>6,071</b>	<b>0</b>	<b>500</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,229</b>	<b>(1,454,607)</b>

## JSC Novoship

### Notes to the consolidated financial statements (continued)

#### **44. Events after the reporting period**

On 4th January 2011 one Suezmax tanker (m/v "Leonid Loza") was delivered into operation.

On 23rd March 2011 an extraordinary General shareholders' meeting took place. The following decisions were taken:

1. Reorganization of the Company by joining of its subsidiary JSC NovoshipinvestPlus to the Company in accordance with the agreement;
2. Reduction of the share capital of the Company through redemption of those ordinary shares acquired in the result of joining of JSC NovoshipinvestPlus to the Company in the amount of 20,896,606 shares.