

**OAO SOVCOMFLOT
AND ITS SUBSIDIARY CORPORATIONS**

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

OAQ Sovcomflot

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OAO SOVCOMFLOT

We have audited the consolidated financial statements of OAO Sovcomflot for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 46. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs).

This report is made solely to the company's members, as a body, in accordance with our engagement letter dated 16 March 2012. 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

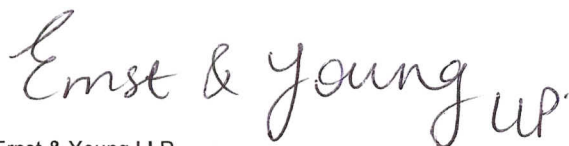
Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the Consolidated Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the consolidated financial statements:

- ▶ Give a true and fair view of the state of the group's affairs as at 31 December 2011 and of its profit for the year then ended; and
- ▶ Have been properly prepared in accordance with IFRSs.



Ernst & Young LLP
London
10 April 2012

OAO Sovcomflot

Consolidated Income Statement
For the period ended 31 December 2011

	<u>Note</u>	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>
Freight and Hire revenue	6	1,438,926	1,312,930
Voyage expenses and commissions	7	<u>(511,651)</u>	<u>(372,023)</u>
Time charter equivalent revenues		<u>927,275</u>	<u>940,907</u>
Direct operating expenses			
Vessels' running costs	8	332,317	299,363
Vessels' drydock cost amortisation	14	35,268	40,220
Charter hire payments	42	<u>38,349</u>	<u>21,613</u>
		<u>(405,934)</u>	<u>(361,196)</u>
Profit on vessels' trading		<u>521,341</u>	<u>579,711</u>
Other operating expenses			
Depreciation and amortisation			
Vessels' depreciation	14	223,726	204,020
Vessels' impairment provision	14&28	7,602	18,620
Other depreciation	16	5,092	5,470
Intangible assets' amortisation	19(a)&(b)	<u>8,397</u>	<u>8,422</u>
		244,817	236,532
Allowance for credit losses		2,710	222
General and administrative expenses	9	<u>93,125</u>	<u>86,399</u>
Total other operating expenses		<u>340,652</u>	<u>323,153</u>
Profit from vessels' operations		180,689	256,558
Reversal for impairment of vessels under construction	14&15	-	19,659
Reversal of onerous contract provision	36	-	2,808
Gain / (loss) on sale of assets	16&18	12,190	(10,064)
Gain on disposal of investments		283	1,229
Other operating revenues	10	52,423	35,377
Other operating expenses	10	(44,030)	(31,753)
Release of provision		3,317	-
Share of losses in associated undertakings	20	<u>(10,873)</u>	<u>(6,255)</u>
Operating profit		<u>193,999</u>	<u>267,559</u>
Other (expenses) / income			
Interest expense	12	(142,117)	(113,832)
Financing costs		(4,400)	(3,305)
Interest income		22,027	39,159
Other non-operating income	44	8,565	43,242
Other non-operating expenses	44	(12,837)	(35,715)
Loss on ineffective hedging instruments	23(a)	(1,512)	(624)
Gain / (loss) on derivative financial instruments held for trading	23(b)	8,566	(5,413)
(Loss) / gain on investments held for trading		(3)	303
Foreign exchange differences		<u>(1,086)</u>	<u>(3,419)</u>
Net other expenses		<u>(122,797)</u>	<u>(79,604)</u>
Profit before income taxes		71,202	187,955
Income taxes	24	<u>(17,526)</u>	<u>(23,670)</u>
Profit for the period		<u>53,676</u>	<u>164,285</u>
Profit attributable to:			
Owners of the parent		52,256	163,148
Non-controlling interest		<u>1,420</u>	<u>1,137</u>
		<u>53,676</u>	<u>164,285</u>

OAO Sovcomflot

Consolidated Statement of Comprehensive Income
For the period ended 31 December 2011

	<u>Note</u>	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>
Profit for the period		<u>53,676</u>	<u>164,285</u>
Other comprehensive income:			
Share of associates' other comprehensive income	20	1,149	(366)
Exchange differences on translation of foreign operations		(4,570)	(1,146)
Derivative financial instruments recycled and debited to the income statement	23(a)	30,709	32,075
Fair value movement of derivative financial instruments debited to other comprehensive income	23(a)	(75,398)	(47,624)
Available for sale financial assets		<u>-</u>	<u>(1,280)</u>
Other comprehensive income for the period, net of tax		<u>(48,110)</u>	<u>(18,341)</u>
Total comprehensive income for the period		<u><u>5,566</u></u>	<u><u>145,944</u></u>
Total comprehensive income attributable to:			
Owners of the parent		4,629	144,980
Non-controlling interest		<u>937</u>	<u>964</u>
		<u><u>5,566</u></u>	<u><u>145,944</u></u>

OAO Sovcomflot

Consolidated Statement of Financial Position – 31 December 2011

	Note	2011 \$'000	2010 \$'000	2009 \$'000 (supplementary)
Assets				
Non-current assets				
Fleet	14	5,460,390	5,229,773	4,758,134
Vessels under construction	15	334,977	231,341	503,585
Other fixed assets	16	65,380	55,149	45,037
Investment property	17	4,565	5,487	6,529
Other fixed assets under construction	18	9,866	7,292	2,878
Intangible assets	19	12,273	19,256	25,654
Investments in associates	20	1,273	1,464	2,866
Available-for-sale investments	20	1,381	1,646	1,645
Finance lease receivables	22	92,162	94,859	69,692
Derivative financial instruments	23	-	1,542	-
Trade and other receivables	26	33,525	15,908	1,779
Deferred tax assets	24	5,164	2,049	3,103
		<u>6,020,956</u>	<u>5,665,766</u>	<u>5,420,902</u>
Current assets				
Inventories	25	76,317	51,025	48,060
Trade and other receivables	26	237,563	233,830	160,041
Finance lease receivables	22	2,697	182	786
Current tax receivable		2,332	2,798	1,822
Other investments	20	-	647	3,466
Cash and bank deposits	27	<u>389,742</u>	<u>512,172</u>	<u>335,695</u>
		708,651	800,654	549,870
Non-current assets held for sale	28	<u>9,800</u>	<u>46,622</u>	<u>31,446</u>
		<u>718,451</u>	<u>847,276</u>	<u>581,316</u>
Total assets		<u><u>6,739,407</u></u>	<u><u>6,513,042</u></u>	<u><u>6,002,218</u></u>
Equity and liabilities				
Capital and reserves				
Share capital	29	405,012	405,012	405,012
Reserves		<u>2,520,171</u>	<u>2,531,685</u>	<u>2,405,393</u>
Equity attributable to owners of the parent		<u>2,925,183</u>	<u>2,936,697</u>	<u>2,810,405</u>
Non-controlling interest	32	<u>159,989</u>	<u>186,324</u>	<u>202,317</u>
Total equity		<u><u>3,085,172</u></u>	<u><u>3,123,021</u></u>	<u><u>3,012,722</u></u>
Non-current liabilities				
Trade and other payables	33	-	5,084	4,733
Secured bank loans	34	1,903,423	1,702,779	2,334,698
Finance lease liabilities	35	221,688	231,051	57,732
Provision for onerous contracts	36	-	-	2,808
Derivative financial instruments	23	120,826	77,253	57,604
Retirement benefit obligations	37	7,997	8,240	5,297
Other loans	38	797,005	796,498	-
Tax payable		-	1,508	1,987
Deferred tax liabilities	24	<u>7,318</u>	<u>8,235</u>	<u>12,898</u>
		<u>3,058,257</u>	<u>2,830,648</u>	<u>2,477,757</u>
Current liabilities				
Trade and other payables	33	245,276	253,803	172,389
Secured bank loans	34	258,776	173,231	196,878
Finance lease liabilities	35	9,363	52,248	54,099
Current tax payable		12,219	5,348	6,999
Provision for onerous contracts	36	-	-	10,110
Derivative financial instruments	23	67,263	74,743	71,264
Amount due to non-controlling interest	40	<u>3,081</u>	<u>-</u>	<u>-</u>
		<u>595,978</u>	<u>559,373</u>	<u>511,739</u>
Total equity and liabilities		<u><u>6,739,407</u></u>	<u><u>6,513,042</u></u>	<u><u>6,002,218</u></u>

Approved by the Executive Board and authorised for issue on 5 April 2012

OAO Sovcomflot

**Consolidated Statement of Changes in Equity
For the period ended 31 December 2011**

	Share capital \$'000	Share premium \$'000	Reconstruction reserve \$'000	Hedging reserve \$'000	Fair value reserve \$'000	Currency reserve \$'000	Retained earnings \$'000	Attributable to owners of the parent \$'000	Non- controlling interest \$'000	Total \$'000
	(Note 29)	(Note 29)	(Note 30)						(Note 32)	
As at 1 January 2010	405,012	818,845	(834,490)	(82,070)	1,109	(445)	2,502,444	2,810,405	202,317	3,012,722
Profit for the period	-	-	-	-	-	-	163,148	163,148	1,137	164,285
Other comprehensive income	-	-	-	(15,681)	(1,111)	(1,376)	-	(18,168)	(173)	(18,341)
Total comprehensive income	-	-	-	(15,681)	(1,111)	(1,376)	163,148	144,980	964	145,944
Dividends (Note 31)	-	-	-	-	-	-	(29,712)	(29,712)	(1,457)	(31,169)
Repurchase of non-controlling interest in JSC Novoship by JSC Novoship	-	-	-	(2)	2	(22)	11,046	11,024	(15,500)	(4,476)
As at 31 December 2010	405,012	818,845	(834,490)	(97,753)	-	(1,843)	2,646,926	2,936,697	186,324	3,123,021
Profit for the period	-	-	-	-	-	-	52,256	52,256	1,420	53,676
Other comprehensive income	-	-	-	(44,689)	-	(2,938)	-	(47,627)	(483)	(48,110)
Total comprehensive income	-	-	-	(44,689)	-	(2,938)	52,256	4,629	937	5,566
Dividends (Note 31)	-	-	-	-	-	-	(35,618)	(35,618)	(963)	(36,581)
Repurchase of non-controlling interest in JSC Novoship by JSC Novoship	-	-	-	-	-	(71)	19,546	19,475	(26,309)	(6,834)
As at 31 December 2011	405,012	818,845	(834,490)	(142,442)	-	(4,852)	2,683,110	2,925,183	159,989	3,085,172

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. During the current period the Group's subsidiary company JSC Novoship changed its functional currency from the US dollar to the Russian Rouble, due to the cessation of US Dollar denominated operations.

OAO Sovcomflot

Consolidated Statement of Cash Flows
For the period ended 31 December 2011

	<u>Note</u>	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>
Operating Activities			
Cash received from freight and hire of vessels		1,375,485	1,274,210
Other cash receipts		49,821	53,308
Cash payments for voyage and running costs		(883,438)	(704,680)
Other cash payments		<u>(140,662)</u>	<u>(131,089)</u>
Cash generated from operations	39	401,206	491,749
Interest received		20,725	3,902
Income tax paid		<u>(17,666)</u>	<u>(32,297)</u>
Net cash inflow from operating activities		<u>404,265</u>	<u>463,354</u>
Investing Activities			
Expenditure on fleet		(284,481)	(106,513)
Proceeds from cancelling shipbuilding contracts		-	20,617
Expenditure on drydock		(25,310)	(25,975)
Expenditure on vessels under construction		(324,680)	(537,554)
Interest capitalised		(6,944)	(1,959)
Expenditure on other fixed assets		(17,235)	(27,042)
Proceeds from sale of vessels		36,956	112,739
Proceeds from sale of other fixed assets		9,952	3,272
Proceeds from disposal of investments		927	3,503
Capital element received on finance leases		709	393
Interest received on finance leases		4,355	4,619
Bank term deposits		5,630	(6,562)
Claims receipts	44	41,086	-
Other receipts		<u>1,072</u>	<u>-</u>
Net cash outflow used in investing activities		<u>(557,963)</u>	<u>(560,462)</u>
Financing Activities			
Proceeds from borrowings		551,229	343,000
Repayment of borrowings		(265,525)	(1,000,841)
Proceeds from other loans	38	-	800,000
(Repayment to) / advances from joint venture partner		(53,932)	53,932
Financing costs		(5,678)	(10,130)
Finance lease drawn down		-	230,000
Repayment of finance lease liabilities		(9,515)	(13,472)
Security and restricted deposits	27	19,278	10,620
Funds in retention bank accounts	27	(6,094)	(3,088)
Interest paid on borrowings and other loans		(122,880)	(94,349)
Interest paid on finance leases		(16,038)	(7,058)
Dividends paid		(35,618)	(29,712)
Buy back of shares		<u>(3,753)</u>	<u>(4,969)</u>
Net cash inflow from financing activities		<u>51,474</u>	<u>273,933</u>
(Decrease) / increase in Cash and Cash Equivalents		(102,224)	176,825
Cash and Cash Equivalents at 1 January	27	443,428	265,981
Net foreign exchange difference		<u>(1,392)</u>	<u>622</u>
Cash and Cash Equivalents at 31 December	27	<u>339,812</u>	<u>443,428</u>

Non – cash transactions

During the period ended 31 December 2011 the Group did not exercise its option for the acquisition of one oil product Handymax tanker and consequently both the finance lease liability and the carrying value of the vessel were derecognised on expiry of the time charter agreement (see Notes 14 and 35).

OAO Sovcomflot

Notes to the Consolidated Financial Statements – 31 December 2011

1. Organisation and Trading Activities

OAO Sovcomflot ("Sovcomflot" or "the Company") is an open joint stock company organised under the laws of the Russian Federation and was registered in Russia on 18 December 1995, as the successor undertaking to AKP Sovcomflot, in which the Russian Federation holds 100% of the issued shares.

The Company's registered office address is 3A, Moika River Embankment, Saint Petersburg 191186, Russian Federation and its head office is located at 6 Gashka Street, Moscow 125047, Russian Federation.

The Company, through its subsidiaries and joint ventures (the "Group"), is engaged in ship owning and operating on a world-wide basis with a fleet of 146 vessels at the period end, comprising 129 tankers, 4 chartered in tankers, 1 chartered in seismic vessel and 1 chartered in ice breaking supply vessel, 8 gas carriers, 1 bulk carrier and 2 ice breaking supply vessels. For major changes in the period in relation to the fleet see also Notes 14 and 15. In addition the Group through its subsidiaries owns 9 escort tug vessels which have been chartered out on bareboat charter to an associate undertaking (see Note 22).

Sovcomflot's various subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. In line with established international shipping practice, most of the Group's vessels are each owned and financed by individual wholly owned subsidiaries of the Group's intermediate holding companies, Fiona Trust and Holding Corporation ("Fiona"), Intrigue Shipping Inc. ("Intrigue") and Sovcomflot Bulk Shipping Inc. ("SBSI").

Ship management services for the Group's vessels are primarily provided by Sovcomflot's subsidiaries JSC Novoship ("Novoship"), Unicom Management Services (Cyprus) Limited ("Unicom"), SCF Unicom Singapore Pte Ltd, Unicom Management Services (St. Petersburg) Ltd, and SCF Marpetrol, S.A. ("Marpetrol").

Sovcomflot currently has a Ba1 corporate family rating with a "stable" outlook with Moody's Investors Service, a BBB- rating with a "negative" outlook with Fitch Ratings Limited and a BBB- with "negative" outlook on a global scale with Standard & Poor's (S & P). Sovcomflot also has an Aa2.ru long-term national scale rating with a "stable" outlook with Moody's Interfax Rating Agency as well as ruAAA on a national scale with S & P.

A list of significant subsidiary companies is disclosed in Note 40 to these financial statements.

The ultimate controlling party of OAO Sovcomflot is the Russian Federation.

2. Directors and Management

The corporate structure of OAO Sovcomflot comprises a Board of Directors which is responsible for policy decisions and overall supervision of the Group and an Executive Board which is responsible for day to day management.

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

<u>Members of the Board of Directors</u>	<u>Initial date of appointment</u>	
I.I. Klebanov (Chairman)	3 November 2011	Senior State Counsellor of the Russian Federation, 1st Class
S.I. Kudryashov	29 June 2010	Deputy Minister of Energy of the Russian Federation
M.G. Manasov	29 June 2010	Entrepreneur
D.G. Moorhouse	29 June 2010	Chairman of the Non-Commercial Organisation London Maritime
V.A. Olerskiy	29 June 2010	Deputy Minister of Transport of the Russian Federation
Ch.E. Ryan	30 June 2008	Chairman of UFG Asset Management
E.B. Titova	30 June 2008	President and Chairman of the Executive Board of OOO Morgan Stanley Bank
N.P. Tokarev	30 June 2008	President of JSC Transneft
S.O. Frank	10 November 2004	President and Chief Executive Officer of OAO Sovcomflot

The members of the Board of Directors are elected at the Annual General Meeting of the Shareholders and remain in office until the next Annual General Meeting where they are eligible for re-election. The current Board of Directors was elected at an Extraordinary General Meeting on 3 November 2011.

<u>Members of the Executive Board</u>	<u>Date of appointment</u>	
S.O. Frank (Chairman)	4 October 2004	President and Chief Executive Officer of OAO Sovcomflot
E.N. Ambrosov	13 July 2009	Senior Executive Vice-President of OAO Sovcomflot, Chief Operating Officer
V.N. Emelianov	12 September 2011	Vice-President of OAO Sovcomflot, Strategy and Organizational Development Officer
N.L. Kolesnikov	19 July 2005	Executive Vice-President of OAO Sovcomflot, Chief Strategy & Financial Officer
A.L. Kurtynin	20 September 2007	Vice-President of OAO Sovcomflot
C.B. Ludgate	22 February 2007	Managing Director of Sovcomflot (UK) Ltd
V.A. Mednikov	17 March 2005	Executive Vice-President of OAO Sovcomflot, Administrative Director
S.G. Popravko	19 July 2005	Senior Executive Vice-President of OAO Sovcomflot, Chief Operating Officer
Lord N.J.A. Fairfax	20 September 2007	Deputy Managing Director of Sovcomflot (UK) Ltd
M.C. Orphanos	12 May 2010	Managing Director of Sovcomflot (Cyprus) Limited
I.V. Tonkovidov	14 January 2011	President of JSC Novoship

OA0 Sovcomflot

**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

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 1 January 2011.

The adoption of the Standards and Interpretations issued by the IASB has not led to any changes in the Group's accounting policies.

At the end of the reporting period, the following Standards and Interpretations which are relevant to the Group's operations were in issue but not yet effective:

- IFRS 9 ("Financial Instruments") – "Classification and Measurement" (effective for annual periods beginning on or after 1 January 2015).
- IAS 12 ("Income Taxes") – "Deferred Tax: Recovery of Underlying Assets" (effective for annual periods beginning on or after 1 January 2012)
- IFRS 10 ("Consolidated Financial Statements") – "Replaces the consolidation guidance in IAS 27" (effective for annual period beginning on or after 1 January 2013).
- IFRS 11 ("Joint Arrangements") – "Introduces new accounting requirements for joint arrangements" (effective for annual period beginning on or after 1 January 2013).
- IFRS 12 ("Disclosure of Interest in Other Entities") – "Requires enhanced disclosures about both consolidated and unconsolidated entities" ("effective for annual period beginning on or after 1 January 2013").
- IFRS 13 ("Fair Value Measurement") – "Definition, guidance and disclosure requirements about fair value measurements" (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 ("Separate Financial Statements") – The consolidation guidance in IAS 27 is replaced by IFRS 10. The requirements relating to separate financial statements are unchanged (effective for annual periods beginning on or after 1 January 2013).
- IAS 28 ("Investments in Associates and Joint Ventures") – "Amendments for conforming changes based on the issuance of IFRS10, IFRS11 and IFRS12" (effective for annual periods beginning on or after 1 January 2013).
- IAS 1 ("Presentation of Financial Statements") – "Amendments to revise the way other comprehensive income is presented" (effective for annual periods beginning on or after 1 July 2012).
- IAS 19 ("Employee Benefits") – "Amended standard resulting from the Post-Employment Benefits and Termination Benefit projects" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 7 ("Financial Instruments: Disclosures") - "Amendments for disclosures- offsetting financial assets and financial liabilities" (effective for annual periods beginning on or after 1 January 2013).
- IAS 32 ("Financial Instruments: Presentation") - "Amendments for offsetting financial assets and financial liabilities" (effective for annual periods beginning on or after 1 January 2014).

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 13 "Fair Value Measurement" issued in May 2011, IAS 19 "Employee Benefits" amended in June 2011 and IFRS11 "Joint Arrangements" issued in May 2011. The Group does not intend to adopt these standards before their effective date.

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 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.

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

The IASB has issued numerous amendments to IAS 19 that become effective for annual periods beginning on or after 1 January 2013. The accounting options available under current IAS 19 have been eliminated. For example, actuarial gains and losses will be now required to be recognised in other comprehensive income (OCI) and excluded permanently from profit and loss. Unvested past service costs can no longer be deferred and recognised over the future vesting period. There are also a number of other changes, including modification to the timing of recognition for termination benefits and disclosures of defined benefit plans. The Group is currently assessing the full impact of the amendments.

IFRS 11 "Joint Arrangements" will replace IAS 31 "Investments in Joint Ventures". The standard will remove the option to proportionately recognise the assets and liabilities of jointly controlled entities and equity accounting will be the only accounting treatment. The standard which will be applied retrospectively will result in a reduction in all assets, liabilities, income and expenses leaving net assets and profit for the period unchanged. The Group is currently in the process of quantifying the effect of introduction of IFRS 11.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

4. Significant Accounting Policies

(a) Basis of preparation and accounting

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, which is also the currency of the Group's primary economic environment.

The statement of financial position includes the 2009 comparative information provided on a voluntary and supplementary basis. However, not all notes to the statement of financial position include the 2009 comparatives. The information provided has been included to assist the reader with their understanding of the financial statements and certain trends they contain.

Certain comparatives have been represented in order to be consistent with the current year's presentation.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of OAQ Sovcomflot and its subsidiaries and joint ventures, for the period from 1 January 2011 (or subsequent dates of incorporation) to 31 December 2011.

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

Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring their accounting policies into line with those used by the Group. All intragroup balances, transactions, unrealised gains and losses resulting from intragroup transactions are eliminated in full.

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

Business combinations are 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 / assumed, 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 (as of 1 January 2010). 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 during each 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 a 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.

(d) Segmental reporting

The Group consists of five reportable operating segments: crude oil transportation, oil product transportation, gas transportation, offshore development services and other. The segments are fully explained in Note 13.

The requirements of the IFRS are based on the information about the components of the entity that management uses to make decisions about operating matters. The operating segments are identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. The Group has only one geographical segment, because the Company considers the global market as a whole, and as the individual vessels are not limited to specific parts of the world. Furthermore, the internal management reporting does not provide such information.

The segment income statement comprises revenues and expenses directly attributable to the segment i.e. freight and hire receivable, voyage costs and commissions, vessels' running costs, vessels' drydock cost amortisation and charter hire payments, vessel depreciation and any vessel impairment provision. The segment's non-current assets consist of the vessels used in the operation of each segment. Not allocated items primarily comprise assets and liabilities as well as revenues and expenses relating to the Group's administrative functions and investment activities, cash and bank balances, interest bearing debt, income tax and deferred tax.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

4. Significant Accounting Policies (Continued)

(e) Investments in associates

The results and assets and liabilities of associates are included in these financial statements for the period from 1 January 2011 (or subsequent dates of incorporation) to 31 December 2011, using the equity method of accounting. Investments in associates are carried in the statement of financial position at cost and 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 involve the establishment of a separate entity in which the venturers have joint control over the economic activities of the entity by virtue of an agreement 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 within the equivalent items in the consolidated financial statements on a line-by-line basis.

(g) Goodwill and other intangible assets

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the 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 fair value 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 goodwill attributable 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.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, unless fair value can be estimated reliably, less accumulated amortisation and accumulated impairment losses.

Other intangible assets represent the value of time charter agreements attached to vessels acquired. The consideration paid is allocated between the vessel and the time charter agreement proportionately to their fair value on the date of acquisition. The fair value of the time charter agreement is calculated by reference to market data published by independent brokers. Where no such information is available, the fair value of the time charter agreement is calculated by discounting the net future cash flows of the charter using the effective interest rate implicit to the time charter agreement, which is the rate at which the net future cash flows break even on expiry of the charter. Amounts are reported at fair value less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over the period of the charter.

(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) Freight and Hire revenue

Freight and Hire revenue, which includes the Group's share in the net revenues of vessel pooling arrangements, represents vessel earnings during the period. Vessel earnings are measured at the fair value of the consideration received or receivable.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

4. Significant Accounting Policies (Continued)

(i) Freight and Hire revenue (continued)

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 demurrage revenue which is recognised when it can be measured reliably in accordance with the terms and conditions of the respective charter party agreements.

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 describe the earnings of any charter contract once voyage 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.

Voyage expenses primarily consisting of port, canal and bunker expenses that are unique to a particular charter are paid for by the charterer under time charter arrangements or by the Group under voyage charter arrangements. Furthermore, voyage related expenses include commission on income paid by the Group. Vessels voyage and operating expenses are accounted for on an accrual basis.

A number of the Group's vessels participate in vessel pooling arrangements, depending on the vessel type, with a third party. Total pool revenue is generated from each vessel participating in the pools in which the Group participates and is based on either voyage or time charter parties. The pool measures net revenues (time charter equivalent revenues) based on the contractual rates and the duration of each voyage, and net revenue is recognised upon delivery of the services in accordance with the terms and conditions of the charter parties. The Group's share of the net revenues in the pools is dependent on the number of days the Group's vessels have been available for the pools in relation to the total available pool earning days during the period. Freight and hire revenue generated by the Group's vessels participating in the pools are recognised in full by the Group's vessel owning companies and are subsequently adjusted upwards or downwards depending on the pool result assuming a reliable estimate can be made. Any adjustment remaining unsettled at the period end is either recognised in accrued income under current assets or accrued liabilities under current liabilities.

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 charters 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 income

Bank and other interest receivable 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 period end as follows:

	Exchange rate		
	2011 \$1	2010 \$1	2009 \$1
Russian Roubles	32.1961	30.4769	30.2442
Pounds Sterling	0.6435	0.6387	0.6193
Euros	0.7703	0.7454	0.6970

Group companies

The assets and liabilities of the Group's foreign operations are translated from their functional currency 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.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

4. Significant Accounting Policies (Continued)

(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.

Group as lessee-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.

Group as lessor-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 long-term service retirement benefit plans in the income statement in the period in which they arise.

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

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.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

4. Significant Accounting Policies (Continued)

(o) Fixed assets and depreciation (continued)

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 (from date of construction) which is as follows:

Oil, product and chemical tankers	25 years
LNG carriers	35 years
LPG carriers	30 years
Second hand LNG carriers (Note 19(a))	43 years
Multi – purpose dry cargo vessels	25 years
Ice breaking supply vessels	25 years

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

	2011	2010	2009
	\$ per	\$ per	\$ per
	LWT	LWT	LWT
Oil, product and chemical tankers	485	490	400
LNG and LPG carriers	485	490	400
Multi-purpose dry cargo vessels	455	445	340
Ice breaking supply vessels	485	490	400

Depreciation in respect of buildings and other fixed assets is charged so as to write off their cost on a straight-line basis to its residual value over the anticipated useful lives of the assets concerned at a rate of between 2.0% 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.

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 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 as a separate component of vessel cost and are amortised to direct operating expenses on a straight line basis over the estimated period to the next drydocking.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

4. Significant Accounting Policies (Continued)

(r) Drydocking and special survey costs (continued)

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.

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. A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years. Such reversal is recognised in the income statement.

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), luboils, victualing and slopchest stocks, other inventories and spares and consumables acquired on board bareboat chartered in vessels. Cost is calculated using the first in first out method. Other stores and spares relating to vessel operations are charged to running costs when purchased and no account is taken of stocks remaining on board at the end of the period.

(u) Financial instruments

Financial assets and liabilities are recognised in 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.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

4. Significant Accounting Policies (Continued)

(u) Financial instruments (continued)

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.

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.

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 assets and liabilities

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.

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Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)

4. Significant Accounting Policies (Continued)

(u) Financial instruments (continued)

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.

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 non-financial 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.

- 1) 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 in scenarios 2 and 3.
- 2) 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.
- 3) 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.

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. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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.

Tonnage Tax

Tonnage tax is payable by the Group in the countries of registration of its vessels by reference to the registered tonnage of each vessel. Tonnage tax is not a tax on income as defined by IAS 12 "Income Taxes" and is therefore included in general and administrative expenses under non-income based taxes.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

4. Significant Accounting Policies (Continued)

(v) Taxation (continued)

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.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(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.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements but are disclosed when an inflow of economic benefits is probable.

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 recognised 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.

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 Sovcomflot and its subsidiaries and joint ventures. 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.

The Group consolidates its share of losses of associates to the extent that it is believed that the Group has a constructive obligation to do so. The determination of the presence of a constructive obligation requires the exercise of judgement, as invariably such an obligation is not contained within any legal agreement and may take the form of an implied commitment to, or an expectation of, a third party. Should the situation that gave rise to the constructive obligation alter significantly or it be clearly determined that the Group ceases to have a constructive obligation the Group would cease to consolidate its share of the losses of associates and would recognise a gain in the income statement amounting to the losses previously consolidated.

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Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)5. **Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)**Development of the port of Sochi

The Group is currently engaged in development of new facilities and related property in the port of Sochi, Russia. The development comprises a number of different aspects and components due to be completed in 2014. The Group estimates that the costs of the development will be recovered in full through rental and sale. In view of the development time line judgement is required to estimate the expected future return from the development and determine whether the project costs are expected to be recoverable.

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.

Key Sources of Estimation UncertaintyCarrying 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 14 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.

Outcomes of legal claims

The Group has been pursuing a number of legal claims, referred to in Note 44. The majority of the claims received judgement in December 2010 and management has recognised assets and liabilities in relation to these judgements based on legal advice; the basis of recognition is set out in Note 44. The Group has obtained permission from the Court of Appeal to appeal some of the unsuccessful claims and it is possible that further assets may be recognised in the future in relation to successful appeals or ongoing litigation with claims in the region of \$135.0 million plus interest which have still to receive judgement. The Group's exposure in respect of these claims is disclosed in Notes 43 and 44.

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Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)

6.	Freight and Hire Revenue	2011	2010
		\$'000	\$'000
	Freight	758,776	625,797
	Hire	680,150	687,133
		<u>1,438,926</u>	<u>1,312,930</u>
7.	Voyage Expenses and Commissions	2011	2010
		\$'000	\$'000
	Bunkers	329,675	229,161
	Port costs	145,663	117,234
	Commissions	25,492	24,165
	Other voyage costs	11,024	6,079
	Release of onerous contract provision	(203)	(4,616)
		<u>511,651</u>	<u>372,023</u>
8.	Vessels' Running Costs	2011	2010
		\$'000	\$'000
	Crew costs	202,438	189,957
	Technical costs	77,959	59,477
	Insurance costs	29,630	26,766
	Lubricating oils	13,554	13,754
	Other	8,736	9,409
		<u>332,317</u>	<u>299,363</u>
9.	General and Administrative Expenses	2011	2010
		\$'000	\$'000
	Administration expenses	77,681	73,231
	Non-income based taxes	13,473	12,002
	Project related expenses	1,238	632
	Bank charges and fees	733	534
		<u>93,125</u>	<u>86,399</u>
	Administration expenses are analysed as follows:	2011	2010
		\$'000	\$'000
	Overseas office costs and other general expenses	36,128	34,712
	Head office costs	18,732	19,829
	Russian office costs	18,245	14,983
	Legal and professional	2,238	1,939
	Audit and accountancy	2,338	1,768
		<u>77,681</u>	<u>73,231</u>
	Non-income based taxes are analysed as follows:	2011	2010
		\$'000	\$'000
	Russian Federation taxes		
	- Irrecoverable value added tax	7,301	6,963
	- Payroll taxes	2,914	1,976
	- Property tax	160	97
	Overseas taxes		
	- Payroll taxes	2,053	1,907
	- Tonnage tax	1,045	1,059
	Non-income based taxes	<u>13,473</u>	<u>12,002</u>

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Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)

10. Net Other Operating Income

	2011 \$'000	2010 \$'000
Other operating revenues	52,423	35,377
Cost of sales		
- Wages and salaries	(8,963)	(8,022)
- Social security costs	(2,328)	(1,910)
- Hire of personnel from joint venture partner	(4,102)	-
- Other cost of sales	(21,919)	(11,989)
Administrative expenses	(5,396)	(5,640)
Other expenses	(447)	(3,257)
Investment property depreciation	(875)	(935)
Other operating expenses	(44,030)	(31,753)
Net other operating income	8,393	3,624

Other operating revenues comprise income from non-core non-vessel operating related activities of the Group performed by subsidiaries of Novoship, income from the towing and installation operation described in Note 21, rental income derived from investment properties (Note 17) and income from the commercial and technical management of third party vessels performed by the Group.

11. Employee Costs

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

	2011 \$'000	2010 \$'000
Seafarers		
- Wages and salaries	152,857	145,970
- Social security costs	2,085	1,926
- Defined contribution pension plans	1,293	1,187
- Long-term service defined benefit plans	947	723
	157,182	149,806
Shore based staff		
- Wages and salaries	62,826	60,387
- Social security costs	7,883	6,275
- Defined contribution pension plans	1,092	910
- Long-term service defined benefit plans	233	(39)
	72,034	67,533
Total employee costs	229,216	217,339

The number of employees employed by the company, its subsidiaries and joint ventures at 31 December 2011 was 5,255 (2010 – 5,226) comprising ships' crew of 3,753 (2010 – 3,572) and shore-based staff of 1,502 (2010 – 1,654).

Compensation of key management personnel

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

	2011 \$'000	2010 \$'000
Short-term benefits	7,038	9,619
Post employment benefits	79	71
Long term service benefits	75	129
	7,192	9,819

12. Interest Expense

	2011 \$'000	2010 \$'000
Secured bank loans	47,526	39,484
Interest rate swaps	36,822	54,050
Other loans	38,512	7,480
Finance lease liabilities	15,612	7,530
Effective interest	3,315	3,859
Other interest	330	1,429
	142,117	113,832

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

13. Segment Information

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

- Crude oil transportation. This segment transports mainly crude oil for the Group's customers worldwide. As of 31 December 2011 the Group's fleet in this segment consisted of 58 crude oil carriers (2010 – 59 including 3 chartered-in vessels).
- Oil products transportation. This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. As of 31 December 2011, the Group's fleet in this segment consisted of 62 petroleum product carriers, of which 4 were chartered-in (2010 – 58 owned vessels), including 23 chemical and oil carriers (2010 – 23) and 3 asphalt and bitumen carriers (2010 – 3).
- Gas transportation. This segment primarily transports LNG and LPG. As of 31 December 2011 and 2010, this segment's fleet consisted of 6 LNG carriers, 4 of which are jointly owned with third parties, and 2 LPG carriers.
- Offshore development services. This segment contains the Group's shuttle tankers and specialised supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously. This segment also provides additional services to offshore development facilities, such as logistical support and the management of floating storage and offloading units ("FSOs"). As of 31 December 2011, this segment's fleet consisted of 13 shuttle tankers (2010 – 7) and 2 ice breaking supply vessels (2010 – 2).
- Other (<10% of revenue). This segment comprises multi-purpose and bulk cargo carriers, primarily for the transportation of coal, and seismic vessels. As of 31 December 2011, this segment's fleet consisted of 1 dry cargo carrier (2010 – 4), 1 seismic vessel and 1 supply vessel for the support of the seismic vessel. Both the seismic vessel and the support vessels were chartered-in in 2011.

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), general and administrative expenses and income taxes are managed on a Group basis and are not allocated to operating segments. 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.

Period ended 31 December 2011

	Crude Oil \$'000	Oil Product \$'000	Gas \$'000	Offshore \$'000	Other \$'000	Total \$'000
Freight and hire revenue	702,091	439,885	87,680	190,201	19,069	1,438,926
Voyage expenses and commissions	(311,614)	(188,031)	(443)	(9,249)	(2,314)	(511,651)
Time charter equivalent revenues	390,477	251,854	87,237	180,952	16,755	927,275
Direct operating expenses						
Vessels' running costs	(137,226)	(130,895)	(20,800)	(35,010)	(8,386)	(332,317)
Vessels' drydock cost amortisation	(14,626)	(10,675)	(4,886)	(4,232)	(849)	(35,268)
Charter hire payments	(17,112)	(11,458)	-	231	(10,010)	(38,349)
Profit on vessels' trading	221,513	98,826	61,551	141,941	(2,490)	521,341
Vessels' depreciation	(98,195)	(62,372)	(16,318)	(45,982)	(859)	(223,726)
Vessels' impairment provision	-	(7,602)	-	-	-	(7,602)
	<u>123,318</u>	<u>28,852</u>	<u>45,233</u>	<u>95,959</u>	<u>(3,349)</u>	<u>290,013</u>
Unallocated						
Other operating expenses						(109,324)
Profit from vessels operations						180,689
Other expenses						(109,487)
Profit before income taxes						71,202
Carrying amount of fleet	<u>2,490,803</u>	<u>1,405,352</u>	<u>420,656</u>	<u>1,125,762</u>	<u>17,817</u>	<u>5,460,390</u>
Non-current assets held for sale	<u>-</u>	<u>9,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,800</u>
Deadweight tonnage of fleet used in operations ('000)	<u>7,243</u>	<u>2,634</u>	<u>283</u>	<u>1,186</u>	<u>73</u>	<u>11,419</u>

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Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)

13. Segment Information (Continued)

Period ended 31 December 2010

	Crude Oil \$'000	Oil Product \$'000	Gas \$'000	Offshore \$'000	Other \$'000	Total \$'000
Freight and hire revenue	658,114	431,036	85,956	122,013	15,811	1,312,930
Voyage expenses and commissions	(215,800)	(153,214)	(383)	(1,172)	(1,454)	(372,023)
Time charter equivalent revenues	442,314	277,822	85,573	120,841	14,357	940,907
Direct operating expenses						
Vessels' running costs	(121,427)	(132,318)	(18,216)	(19,193)	(8,209)	(299,363)
Vessels' drydock cost amortisation	(14,295)	(16,473)	(5,562)	(2,497)	(1,393)	(40,220)
Charter hire payments	(19,303)	-	-	(2,310)	-	(21,613)
Profit on vessels' trading	287,289	129,031	61,795	96,841	4,755	579,711
Vessels' depreciation	(84,596)	(70,200)	(16,402)	(30,674)	(2,148)	(204,020)
Vessels' impairment provision	-	(18,620)	-	-	-	(18,620)
	202,693	40,211	45,393	66,167	2,607	357,071
Unallocated						
Other operating expenses						(100,513)
Profit from vessels operations						256,558
Other expenses						(68,603)
Profit before income taxes						187,955
Carrying amount of fleet	2,449,187	1,431,348	438,954	892,123	18,161	5,229,773
Non-current assets held for sale	-	34,189	-	-	12,433	46,622
Deadweight tonnage of fleet used in operations ('000)	7,294	2,477	283	564	98	10,716

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Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)

14. Fleet

	<u>Vessels</u> <u>\$'000</u>	<u>Drydock</u> <u>\$'000</u>	<u>Total</u> <u>Fleet</u> <u>\$'000</u>
Cost			
At 1 January 2010	5,787,297	155,418	5,942,715
Expenditure in period	4,929	24,770	29,699
Acquisitions in the period	102,197	1,736	103,933
Transfer from vessels under construction (Note 15)	768,477	15,470	783,947
Transfer to non-current assets held for sale (Note 28)	(148,702)	(4,384)	(153,086)
Derecognition of vessels under finance lease	(58,400)	-	(58,400)
Disposals	(195,995)	(8,065)	(204,060)
Write-off of fully depreciated drydock cost	-	(34,195)	(34,195)
At 31 December 2010	<u>6,259,803</u>	<u>150,750</u>	<u>6,410,553</u>
Expenditure in period	2,933	23,460	26,393
Acquisitions in the period	277,388	4,157	281,545
Transfer from vessels under construction (Note 15)	223,312	4,677	227,989
Derecognition of vessels under finance lease	(59,300)	-	(59,300)
Write-off of fully depreciated drydock cost	-	(24,383)	(24,383)
At 31 December 2011	<u>6,704,136</u>	<u>158,661</u>	<u>6,862,797</u>
Depreciation and amortisation			
At 1 January 2010	1,114,440	70,141	1,184,581
Charge for the period	204,020	40,220	244,240
Impairment provision	33,621	-	33,621
Reversal of impairment provision of fleet	(15,001)	-	(15,001)
Impairment provision transfer from vessels under construction (Note 15)	16,850	-	16,850
Reversal of impairment provision	(16,850)	-	(16,850)
Transfer to non-current assets held for sale (Note 28)	(104,059)	(2,405)	(106,464)
Derecognition of vessels under finance lease	(15,419)	-	(15,419)
Disposals	(105,729)	(4,854)	(110,583)
Write-off of fully depreciated drydock cost	-	(34,195)	(34,195)
At 31 December 2010	<u>1,111,873</u>	<u>68,907</u>	<u>1,180,780</u>
Charge for the period	223,726	35,268	258,994
Impairment provision	9,701	-	9,701
Reversal of impairment provision of fleet	(6,180)	-	(6,180)
Derecognition of vessels under finance lease	(16,505)	-	(16,505)
Write-off of fully depreciated drydock cost	-	(24,383)	(24,383)
At 31 December 2011	<u>1,322,615</u>	<u>79,792</u>	<u>1,402,407</u>
Net book value			
At 31 December 2011	<u>5,381,521</u>	<u>78,869</u>	<u>5,460,390</u>
At 31 December 2010	<u>5,147,930</u>	<u>81,843</u>	<u>5,229,773</u>
At 31 December 2009	<u>4,672,857</u>	<u>85,277</u>	<u>4,758,134</u>
	2011	2010	2009
Market value ¹ (\$'000)	<u>5,050,570</u>	<u>5,304,625</u>	<u>4,636,500</u>
Current insured values ¹ (\$'000)	<u>6,364,170</u>	<u>5,902,206</u>	<u>6,889,907</u>
Total deadweight tonnage ¹ (dwt)	<u>11,202,127</u>	<u>10,247,176</u>	<u>9,558,619</u>

¹ Including Group's share in the joint ventures (Note 21).

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**Notes to the Consolidated Financial Statements – 31 December 2011
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14. Fleet (Continued)

Summary of fleet at period end:

<u>Type of vessel</u>	<u>Number of vessels</u>		<u>Dwt'000</u>		<u>Carrying value \$ million</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Oil tankers and product carriers ²	128	118	10,842	9,887	4,878	4,622
LNG and LPG carriers ²	8	8	282	282	421	439
Bulk Carriers	1	1	69	69	18	18
Ice breaking supply vessels	2	2	9	9	143	151
	139	129	11,202	10,247	5,460	5,230
Vessels held for sale (Note 28)	1	6	40	149	10	47
	<u>140</u>	<u>135</u>	<u>11,242</u>	<u>10,396</u>	<u>5,470</u>	<u>5,277</u>

² Oil tankers and product carriers and LNG and LPG carriers include four oil product Panamax tanker (LR1 type) and four LNG carriers respectively owned by joint ventures (Note 21). The DWT and carrying value include the Group's share of the fleet in the joint ventures.

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 \$9.7 million (2010 – \$33.6 million), based on value in use, and the reversal of a previous impairment provision of \$6.2 million (2010 – \$15.0 million). The reversal of the impairment which has arisen during the period is primarily driven by a significant change in the manning arrangements of the vessels concerned which has the effect of significantly reducing the annual predicted running costs of these vessels. The reversal of impairments in 2010 was driven by a significant change in the revenue assumptions.

Value in use calculations involve estimating the discounted future cash flows, which require judgements concerning 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 to be made regarding demand for products and services, future market conditions and future technological developments. 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 main assumptions used in performing the value in use calculations as at period end are as follows:

- Contracted hire rates, for vessels on time charter, until the expiry of the current agreements;
- Freight rate estimates in the years 2012 to 2014 based on Baltic Exchange Forward Freight Assessments for the relevant route that applies to each vessel, or where Baltic Exchange Forward Freight Assessments are not available for the relevant route, publically available market forecasts. These are adjusted for any premium/discount earned by each vessel on the relevant route compared to the historic average without any inflationary increase;
- Freight rate estimates after 2014 based on the historic ten year earnings average for each type of vessel, obtained from independent brokers' research as adjusted for any premium/discount earned by each vessel on the relevant route compared to the historic average without any inflationary increase;
- Operating expenses are based on the Group's operating budget approved by the Group for 2012 and increasing at a rate of 3% (2010: 3%) per annum for the first five years (up to 2017);
- 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 6.52% to 7.76% pre-tax (2010 – 6.72% to 7.62% pre-tax), depending on the remaining useful economic life of each vessel and the area of trade; and
- Annual utilisation for each vessel of 363 days less any scheduled drydocking, estimated at 28 days, based on historical performance and the expectations for future fleet utilisation.

The following sensitivity analysis has been performed by management as at 31 December 2011, 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 overall additional impairment provision to fleet of \$41.0 million (2010 – \$42.4 million) comprising an additional impairment of \$36.5 million (2010 – \$41.2 million) and a decrease in the reversal of the impairment provision by \$4.5 million (2010 – \$1.2 million); and
- An increase in the discount rate of 1% would result in an overall additional impairment provision to fleet of \$6.4 million (2010 - \$21.5 million) comprising an additional impairment of \$5.8 million (2010 – \$17.3 million) and a decrease in the reversal of the impairment provision by \$0.6 million (2010 – \$4.2 million).

A sensitivity analysis for vessels under construction is presented separately in Note 36 of these financial statements.

As at 31 December 2011 management 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 increase the depreciation charge by \$0.6 million (2010 – decrease of \$9.8 million).

Included in the Group's fleet are vessels held under finance leases with an aggregate carrying value of \$247.5 million (2010 – \$295.6 million). The depreciation charge in the period in respect of these vessels amounted to \$9.3 million (2010 – \$8.7 million) (see also Note 35).

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**Notes to the Consolidated Financial Statements – 31 December 2011
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15. Vessels Under Construction

	2011	2010
	\$'000	\$'000
Cost		
At 1 January	231,341	513,134
Expenditure for the period	331,625	539,513
Transfer to fleet (Note 14)	(227,989)	(783,947)
Transfer to finance lease receivables (Note 22)	-	(19,035)
Cancellation of contract for vessels under construction	-	(18,324)
At 31 December	334,977	231,341
Impairment provision		
At 1 January	-	9,549
Allocated to payments made during the period from provision for onerous contracts (Note 36)	-	10,110
Transfer to fleet (Note 14)	-	(16,850)
Released during the period	-	(2,809)
At 31 December	-	-
Carrying amount		
At 31 December	334,977	231,341
Total deadweight tonnage ¹ (dwt)	1,651,840	1,438,960

¹ Includes Group's share in joint ventures (Note 21).

Vessels under construction at 1 January 2011 comprised one crude oil Suezmax tanker, five crude oil Aframax tankers, four Panamax bulk carriers, two oil product Aframax tankers (LR2 type) and four oil product Panamax tankers (LR1 type) which are jointly owned with third parties, scheduled for delivery between January 2011 and February 2014 at a total contracted cost to the Group of \$802.2 million.

In December 2010 the Group signed agreements for the construction of two Very Large Crude Carriers ("VLCC") and two Multifunctional Ice-breaking vessels at a total contracted cost of \$197.6 million and \$200.0 million respectively. These agreements became effective in the first quarter of 2011.

In May 2011 the Group signed agreements for the construction of two Liquefied Natural Gas ("LNG") carriers at a total contracted cost of \$394.5 million.

Vessels delivered during the period comprised the following:

<u>Vessel Name</u>	<u>Vessel Type</u>	<u>Segment</u>	<u>DWT</u>	<u>Delivery Date</u>
Leonid Loza	Suezmax tanker	Crude oil	156,000	4 January 2011
Suvorovsky Prospect	Aframax tanker	Crude oil	113,860	15 February 2011
SCF Pioneer ²	Panamax tanker (LR1)	Oil product	74,602	3 March 2011
SCF Provider ²	Panamax tanker (LR1)	Oil product	74,548	21 March 2011
SCF Prime ²	Panamax tanker (LR1)	Oil product	74,602	5 April 2011

² Vessels jointly owned by joint ventures (see Note 21).

In January 2012, the Group terminated the shipbuilding contracts for two crude oil Aframax tankers and entered into new optional agreements for the construction of two crude oil Aframax tankers, declarable by 31 December 2012. The Group had not paid any of the contracted costs of the cancelled contracts. The contract price for the optional vessels will be agreed upon the declaration of the options.

Vessels under construction at 31 December 2011 comprised two crude oil Aframax tankers, four Panamax bulk carriers (two of which were converted into LPG carriers subsequent to the period end – see also Note 46), two Multifunctional Ice breaking vessels, two VLCCs, two oil product Aframax tankers (LR2 type), one oil product Panamax tanker (LR1 type) which is jointly owned with third parties and two LNG carriers scheduled for delivery between February 2012 and May 2014 at a total contracted cost to the Group of \$1,271.1 million. As at 31 December 2011 \$325.7 million of the contracted costs had been paid for (see also Note 41(d)). Vessels under construction exclude the two crude oil Aframax tanker shipbuilding contracts cancelled in January 2012.

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.

Included in expenditure in the period is an amount of \$6.9 million (2010 – \$2.0 million) representing interest capitalised during the period in accordance with the Group's accounting policy concerning borrowing costs (Note 4(l)) at a weighted average interest rate of 4.3% per annum (2010 – 1.9% per annum).

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Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)

16. Other Fixed Assets

	Land and buildings \$'000	Miscellaneous \$'000	Total \$'000
Cost			
At 1 January 2010	47,194	51,747	98,941
Additions	7,180	7,971	15,151
Transfer to investment property (Note 17)	(61)	(1)	(62)
Transfer from other fixed assets under construction (Note 18)	504	795	1,299
Disposals	(714)	(5,758)	(6,472)
Exchange adjustment	(14)	(65)	(79)
At 31 December 2010	54,089	54,689	108,778
Additions	11,206	4,881	16,087
Transfers	10,122	(10,122)	-
Transfer from other fixed assets under construction (Note 18)	909	483	1,392
Disposals	(2,226)	(1,485)	(3,711)
Exchange adjustment	(1,785)	(1,380)	(3,165)
At 31 December 2011	72,315	47,066	119,381
Depreciation			
At 1 January 2010	23,967	29,937	53,904
Charge for the period	1,331	4,139	5,470
Transfer to investment property (Note 17)	(61)	(1)	(62)
Disposals	(433)	(5,189)	(5,622)
Exchange adjustment	2	(63)	(61)
At 31 December 2010	24,806	28,823	53,629
Charge for the period	1,077	4,015	5,092
Disposals	(1,819)	(1,091)	(2,910)
Exchange adjustment	(1,001)	(809)	(1,810)
At 31 December 2011	23,063	30,938	54,001
Net book value			
At 31 December 2011	49,252	16,128	65,380
At 31 December 2010	29,283	25,866	55,149

Buildings comprise offices in Moscow, St. Petersburg, Novorossiysk and Limassol. Included in land and buildings is an amount of \$20.4 million (2010 – \$10.1 million included in miscellaneous other fixed assets) relating to construction work made to premises in St. Petersburg, which are expected to be completed by the end of June 2012 (see also Note 43). Expenses incurred in relation to the construction work up to 31 December 2010 were transferred from miscellaneous other fixed assets to land and buildings following the acquisition and eventual transfer of the preserved office building, including the land the building is built on, from the Property Fund of St. Petersburg, a Russian Governmental body, in January 2011.

During the period the Group disposed of a number of other fixed assets, realising a profit on disposal of \$9.3 million.

Miscellaneous other fixed assets comprise office equipment, fixtures and fittings, leasehold improvements of leased premises in Moscow, Madrid and London, and motor vehicles.

17. Investment Property

	2011 \$'000	2010 \$'000
Cost		
At 1 January	22,522	22,717
Transfer from other fixed assets (Note 16)	-	62
Transfer from other fixed assets under construction (Note 18)	-	22
Disposals	(180)	(279)
Exchange adjustment	(366)	-
At 31 December	21,976	22,522
Depreciation		
At 1 January	17,035	16,188
Transfer from other fixed assets (Note 16)	-	62
Charge for the period (Note 10)	875	935
Disposals	(180)	(150)
Exchange adjustment	(319)	-
At 31 December	17,411	17,035
Net book value		
At 31 December	4,565	5,487
Rental income derived from investment properties	2,986	2,919
Direct operating expenses (including repairs and maintenance)	1,023	2,066

Investment property comprises buildings in Moscow and Novorossiysk with a market value, based on valuations performed by independent qualified valuers as at 31 December 2011 of \$25.1 million (2010 - \$26.1 million). The land on which the Moscow building is built is leased for a period of 49 years from August 1994.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

18. Other Fixed Assets Under Construction

	2011 \$'000	2010 \$'000
At 1 January	7,292	2,878
Expenditure in the period	5,714	5,797
Transfer to other fixed assets (Note 16)	(1,392)	(1,299)
Transfer to investment property (Note 17)	-	(22)
Disposals	(671)	(89)
Exchange adjustment	(1,077)	27
At 31 December	9,866	7,292

Other fixed assets under construction primarily consist of costs incurred and capitalised in relation to a contract with the Federal Corporation "Olympstroy" to construct and develop facilities of the port of Sochi, including, amongst others, a yacht marina and related onshore infrastructure, in connection with the preparation for the Olympic sites for the 2014 Winter Olympic Games in Sochi.

19. Intangible Assets

	2011 \$'000	2010 \$'000	2009 \$'000
(a) Fair value of time charter agreements acquired	7,346	14,020	20,082
(b) Fair value of time charter agreements acquired on acquisition of joint ventures	4,927	5,236	5,572
	12,273	19,256	25,654

(a) Time charters acquired

During 2006 the Group acquired two 70,000 CBM LNG Carriers, the "SCF Polar" and the "SCF Arctic" together with the time charters attached to each vessel.

The movements in the carrying values of the time charter agreements are presented as follows:

	2011 \$'000	2010 \$'000
At 1 January	14,020	20,082
Effective interest for the period	1,413	2,025
Amortisation for the period	(8,087)	(8,087)
At 31 December	7,346	14,020

The time charter agreements expire on 31 December 2012 with aggregate charter hire receivable as at 31 December 2011 of \$30.8 million (2010 – \$61.7 million).

(b) Time charters acquired on acquisition of additional shareholdings in joint ventures

On 30 November 2009, the Group acquired from Nippon Yusen Kabushiki Kaisha ("NYK") an additional 10% shareholding in NYK-SCF LNG Shipping No.1 Limited and in NYK-SCF LNG Shipping No.2 Limited together with the time charters attached to each vessel.

The fair value of the time charters acquired, equal to \$5.6 million, is amortised over the remaining term of the time charters, being 20 years from the commencement of the charters. The amortisation of the time charters during the period ended 31 December 2011 was \$0.3 million (2010 - \$0.3 million).

20. Investments

	2011 \$'000	2010 \$'000	2009 \$'000
Investments in associates	1,273	1,464	2,866
Available-for-sale investments	1,381	1,646	1,645
Non-current asset investments	2,654	3,110	4,511
Current asset investments	-	647	3,466
Total Investments	2,654	3,757	7,977

Current asset investments comprised:

	2011 \$'000	2010 \$'000	2009 \$'000
Short-term equity investments available for sale at fair value	-	-	2,337
Short-term bank deposits held to maturity	-	144	878
Russian state bonds	-	503	251
	-	647	3,466

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

20. Investments (continued)

Investments in associates are analysed as follows:

	2011	2010
	\$'000	\$'000
At 1 January	1,464	2,866
Share of losses in associates	(10,873)	(4,490)
Write off of goodwill arising on acquisition of associate in prior periods	-	(1,765)
Share of associates' other comprehensive income	1,149	(366)
Provision for share in net liabilities of associate	9,909	5,238
Currency retranslation difference	(376)	(19)
At 31 December	1,273	1,464

A provision for share in net liabilities of an associate for 2011 and 2010 totalling \$15.1 million is included in Trade and other payables under other payable in Note 33.

At 31 December 2011 and 31 December 2010, the Group had participating interests in the following active associates:

<u>Name of entity</u>	<u>Holding</u>	<u>Country of Incorporation</u>	<u>Principal Activity</u>
JSC Rosneftflot	49%	Russia	Ship Management and port fleet operator
JSC Port Prigorodnoye	50%	Russia	Port operations and port coordination activities
Chart Pilot LLC	20%	Russia	Production and distribution of navigation equipment

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

	2011	2010
	\$'000	\$'000
Total assets	105,366	109,997
Total liabilities	(134,248)	(118,716)
Net liabilities	(28,882)	(8,719)
Group's share of associates' net liabilities	(15,007)	(5,114)
Revenues	61,844	48,640
Loss for the period	(21,913)	(9,181)
Group's share of associates' losses for the period	(10,873)	(4,490)

21. Joint Ventures

The Group assesses whether an interest in an entity is considered to be an interest in a jointly controlled entity according to the terms of the share purchase agreement between the parties. Voting rights and distribution rights are taken into account in conjunction with the percentage of ownership.

As at period end, the Group has interests in the following active jointly controlled entities:

<u>Name of entity</u>	Percentage holding		
	2011	2010	2009
LNG East-West Shipping Company (Singapore) Pte Limited	37.5%	37.5%	37.5%
LNG North-South Shipping Company (Singapore) Pte Limited	50.0%	50.0%	50.0%
NYK-SCF LNG Shipping No.1 Limited	50.0%	50.0%	50.0%
NYK-SCF LNG Shipping No.2 Limited	50.0%	50.0%	50.0%
Eastern Supply Vessels Limited ¹	50.0%	50.0%	50.0%
SSV Sakhalin Offshore Ltd ¹	50.0%	50.0%	50.0%
SCF Swire Offshore Pte Ltd ¹	50.0%	50.0%	50.0%
Anubis Shipholding Limited ²	51.0%	51.0%	-
Gorey Shipping Limited ²	51.0%	51.0%	-
Plemont Shipping Limited ²	51.0%	51.0%	-
Rozel Shipping Limited ²	51.0%	51.0%	-
Sorel Shipping Limited ²	51.0%	51.0%	-
SCF ST Product Tankers Limited ²	51.0%	51.0%	-
JV VOSCF	50.0%	50.0%	-

¹ Effective ownership 33.3%

² All key business decisions require joint approval by the shareholders

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**Notes to the Consolidated Financial Statements – 31 December 2011
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21. Joint Ventures (continued)

In November 2010 a subsidiary of the Group entered into joint venture arrangements with a subsidiary of Glencore International AG for the acquisition and commercial management of five oil product Panamax tankers (LR1 type). On 16 November 2010 the Group, through one of the joint venture companies, took delivery of the first product tanker. In December 2010 four of the joint venture companies acquired the contracts for the construction of four oil product Panamax tankers (LR1 type). During the period the Group took delivery of three of the above four oil product Panamax tankers (see also Note 15). The last of series was delivered to the Group on 18 January 2012.

In December 2010, the Group set up, with a third party, a joint venture entity, JV VOSCF, to perform the towing and installation operations of the Gravity Based Structure of a drilling rig of Arkutun Dagi (Sakhalin I) project, in the Far East of Russia, expected to be completed in the summer of 2012. The total contracted revenue receivable by the joint venture is approximately \$110 million.

The Group's share of the assets and liabilities as at the period end and of revenues, expenses and cash flows of the joint ventures during the period which are proportionately consolidated in the financial statements, are as follows:

	2011 \$'000	2010 \$'000	2009 \$'000
Statement of financial position			
Non-current assets	437,293	372,328	328,173
Current assets	43,365	31,927	27,535
Non-current liabilities	373,116	282,052	281,903
Current liabilities	43,822	83,179	26,910
Income statement			
Revenues	80,379	41,808	36,630
Expenses	61,529	35,321	33,248
Statement of cash flows			
		2011 \$'000	2010 \$'000
Cash flows from operating activities		43,591	32,567
Cash flows used in investing activities		(33,895)	(93,630)
Cash flows (used in) / from financing activities		(1,938)	39,438

22. Finance Lease Receivables

	2011 \$'000	2010 \$'000	2009 \$'000
At 1 January	95,041	70,478	-
Transfer from vessels under construction (Note 15)	-	19,035	68,862
Finance lease interest receivable	14,373	12,002	4,948
Finance lease instalments received	(14,555)	(6,474)	(3,332)
At 31 December	94,859	95,041	70,478
Less current finance lease receivables	(2,697)	(182)	(786)
Non-current finance lease receivables	92,162	94,859	69,692

The minimum lease instalments and their corresponding present value is analysed as follows:

	Minimum lease instalments		Present value of minimum lease instalments	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Within one year	16,801	14,556	2,697	182
After one year but not more than five years	67,067	67,067	15,774	13,606
More than five years	130,022	146,823	76,388	81,253
	213,890	228,446	94,859	95,041
Less unearned income	(119,031)	(133,405)	-	-
Present value of minimum lease instalments	94,859	95,041	94,859	95,041

Finance lease receivables comprise nine Escort tugs chartered out on fifteen year bareboat charters to JSC Rosneftflot (a Group associate), commencing on delivery of the tugs by the shipyards, at effective interest rates ranging from 11.95% to 18.44% per annum.

The charter hires are payable monthly in arrears at daily rates ranging from \$60 to \$7,083 from inception through to expiration of the charters. The charterer has the option to acquire the tugs on any hire payment date through to the expiration of the charter, provided that the charterer has fulfilled all obligations under the bareboat charter agreements, at predetermined prices. Upon expiration of the charters in fifteen years from the commencement date, legal ownership of the tugs will be transferred to the charterer at a nominal amount.

Amounts invoiced but outstanding as at the period end are disclosed separately under trade and other receivables in Note 26.

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23. **Derivative Financial Instruments**

	2011 \$'000	2010 \$'000	2009 \$'000
(a) Hedging instruments	153,218	107,017	90,844
(b) Classified at fair value through profit or loss	34,871	43,437	38,024
Net liabilities	188,089	150,454	128,868

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.

(a) Hedging instruments

	2011 \$'000	2010 \$'000
At 1 January	107,017	90,844
Recycled during the period and credited to the income statement	(30,709)	(32,075)
Fair value movement during the period shown in other comprehensive income	75,398	47,624
Fair value movement during the period debited to the income statement	1,512	624
At 31 December	153,218	107,017

The Group entered into interest rate swap agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations. As of 31 December 2011 the Group had the following interest rate swap agreements amortising in accordance with the initial repayment schedules of the relevant loans at fixed rates compared to US Dollar three month LIBOR as follows:

Type of instrument	Notional amount 2011 \$'000	Notional amount 2010 \$'000	Fixed interest rate	Expiry date
Swap	52,500	58,500	1.59%	24 August 2015
Swap	49,000	54,600	2.02%	22 July 2017
Swap	29,700	31,680	4.47%	12 December 2016
Swap	351,675	375,825	5.76%	1 March 2021
Swap ¹	58,445	60,884	5.06%	31 October 2019
Swap ¹	8,150	8,436	5.01%	31 October 2019
Swap ¹	61,283	63,782	5.07%	30 December 2019
Swap ¹	7,899	8,163	4.73%	4 January 2020
Swap ¹	23,916	24,475	5.42%	7 December 2020
Swap ¹	28,840	29,514	4.67%	7 December 2020
Swap ¹	39,094	40,586	4.92%	30 January 2021
Swap ¹	29,501	30,454	5.15%	30 January 2021
Swap ¹	12,941	-	2.80%	3 February 2021
Swap ¹	12,683	-	2.83%	25 February 2021
Swap ¹	12,683	-	2.76%	15 March 2021
Swap ¹	12,683	-	2.78%	1 April 2021
	790,993	786,899		

¹ Represents the Group's share in the joint ventures (Note 21). Fiona has severally guaranteed to the hedging bank the performance of all the obligations and liabilities under the swap agreements limited to its percentage holding in the equity share capital of the four joint venture companies.

(b) Classified at fair value through profit or loss

	2011 \$'000	2010 \$'000
At 1 January	43,437	38,024
Fair value movement during the period (credited) / debited to the income statement	(8,566)	5,413
At 31 December	34,871	43,437

All derivative financial instruments classified at fair value through profit or loss at 31 December 2011 and 2010 are interest rate financial instruments and are recorded in the statement of financial position as current liabilities.

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Notes to the Consolidated Financial Statements – 31 December 2011
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23. Derivative Financial Instruments (Continued)

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

In addition to the interest rate swaps designated as hedging instruments, as at period end the Group had the following interest rate financial instruments:

Type of instrument	Notional amount 2011 \$'000	Notional amount 2010 \$'000	Fixed interest rate	Expiry date
Swaption				
IRS	50,000	50,000	4.59%	5 March 2012
Swaption (IRS from 6 March 2012)	50,000	50,000	4.59%	6 March 2014
Swaption				
IRS	55,000	55,000	4.40%	22 May 2012
Swaption	55,000	55,000	4.40%	22 May 2014
Swaption				
IRS	50,000	50,000	4.17%	22 May 2012
Swaption	50,000	50,000	4.17%	22 May 2014
Collar, sold Cap and knock in				
IRS	50,000	50,000	3.50%	18 March 2013
Knock in floor	50,000	50,000	4.50%	17 March 2014
Sold Cap	50,000	50,000	5.00%	18 March 2013
Collar and Knock in / out				
Knock out Cap	-	50,000	5.90%/7.00%	1 July 2011
Knock in floor	50,000	50,000	4.48%	1 January 2014
IRS				
IRS	50,000	50,000	3.80%	22 October 2013
Swaption				
IRS	-	50,000	4.00%	28 November 2011
IRS (IRS from 29 November 2011)	50,000	50,000	4.00%	27 November 2012
Swaption	50,000	50,000	4.00%	27 November 2013
Swaption	50,000	50,000	4.00%	28 November 2014
IRS				
IRS	-	50,000	2.87%	18 January 2011
IRS	30,750	33,750	2.40%	29 November 2013
Collar and knock in / out				
Knock in floor	50,000	50,000	3.62%	25 February 2013
Knock out Cap	50,000	50,000	3.62%	25 February 2013

Derivative financial instruments are classified in the statement of financial position as follows:

	2011 \$'000	2010 \$'000	2009 \$'000
Non-current asset	-	1,542	-
Non-current liability	(120,826)	(77,253)	(57,604)
Current liability	(67,263)	(74,743)	(71,264)
	(188,089)	(150,454)	(128,868)

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24. Income Taxes

	2011 \$'000	2010 \$'000
Russian Federation profits tax	19,492	25,475
Overseas income taxes	1,642	1,714
Income tax expense	21,134	27,189
Deferred tax	(3,608)	(3,519)
Total income tax expense	<u>17,526</u>	<u>23,670</u>

Under the laws of the countries of incorporation and / or vessel registration, a limited number of vessel owning and operating subsidiaries are subject to tax on international shipping income. Management is of the opinion that the Group is fully compliant with the respective tax regime of the countries of incorporation of the vessel owning companies and / or vessel registration.

Russian Federation profits tax is payable in Roubles at an effective rate of 20% (2010 – 20%) on the profits arising on Russian operations, as adjusted for Russian fiscal purposes. Taxes are also payable on the results of the Group's overseas management, agency and broking subsidiaries. The liability to taxation of the other subsidiaries is insignificant.

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

	2011 \$'000	2010 \$'000
Profit before income taxes	71,202	187,955
Income tax using Russian Federation income tax rate of 20% (2010 – 20%)	14,240	37,591
Effect of tax on profits taxable in other jurisdictions	(42)	(728)
Tax effect of intercompany dividends	5,984	2,399
Tax effect of intercompany fees	1,919	2,805
Tax effect of non-deductible expenses and non-taxable income	(5,273)	(24,441)
Difference in tax rate of dividends received	(113)	(2,242)
Tax on exchange gain on repatriation of investment	3,709	11,805
Tax arising from the utilisation of previously unrecognised and unused tax losses	726	-
Tax overprovision related to previous years	(16)	-
Income tax expense	<u>21,134</u>	<u>27,189</u>

Deferred Tax

	Opening balance \$'000	(Charged) / released to income \$'000	Exchange differences \$'000	Closing balance \$'000
<u>At 31 December 2011</u>				
Deferred tax assets	2,049	2,895	220	5,164
Deferred tax liabilities	(8,235)	713	204	(7,318)
	<u>(6,186)</u>	<u>3,608</u>	<u>424</u>	<u>(2,154)</u>
<u>At 31 December 2010</u>				
Deferred tax assets	3,103	(1,736)	682	2,049
Deferred tax liabilities	(12,898)	5,255	(592)	(8,235)
	<u>(9,795)</u>	<u>3,519</u>	<u>90</u>	<u>(6,186)</u>

Deferred tax assets arise from the following:

	Opening balance \$'000	(Charged) / released to income \$'000	Exchange differences \$'000	Closing balance \$'000
<u>At 31 December 2011</u>				
Fleet	1,753	129	(112)	1,770
Finance leases	190	-	-	190
Pensions	94	(91)	(3)	-
Other	12	15	-	27
Unused tax losses carried forward	-	1,082	(35)	1,047
Accounts payable	-	1,760	370	2,130
	<u>2,049</u>	<u>2,895</u>	<u>220</u>	<u>5,164</u>
<u>At 31 December 2010</u>				
Fleet	1,607	(648)	794	1,753
Finance leases	674	(432)	(52)	190
Pensions	346	(228)	(24)	94
Hedging instruments	420	(384)	(36)	-
Other	56	(44)	-	12
	<u>3,103</u>	<u>(1,736)</u>	<u>682</u>	<u>2,049</u>

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Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)

24. Income Taxes (Continued)

Deferred tax liabilities arise from the following:

	Opening balance \$'000	(Charged) / released to income \$'000	Exchange differences \$'000	Closing balance \$'000
<u>At 31 December 2011</u>				
Fleet	(2,632)	(1,271)	-	(3,903)
Drydock	(13)	9	-	(4)
Other fixed assets	(666)	121	-	(545)
Bank loans	(64)	-	-	(64)
Provisions	(3,368)	3,263	105	-
Gains on disposal of assets reinvested	(1,168)	214	45	(909)
Other	(324)	(45)	1	(368)
Accounts receivable	-	(1,578)	53	(1,525)
	<u>(8,235)</u>	<u>713</u>	<u>204</u>	<u>(7,318)</u>
<u>At 31 December 2010</u>				
Fleet	(9,597)	7,723	(758)	(2,632)
Drydock	(235)	221	1	(13)
Other fixed assets	(787)	121	-	(666)
Bank loans	(118)	14	40	(64)
Provisions	-	(3,368)	-	(3,368)
Gains on disposal of assets reinvested	(1,758)	468	122	(1,168)
Other	(403)	76	3	(324)
	<u>(12,898)</u>	<u>5,255</u>	<u>(592)</u>	<u>(8,235)</u>

25. Inventories

	2011 \$'000	2010 \$'000	2009 \$'000
Bunkers	52,159	31,118	28,727
Lubricants	17,669	15,169	14,086
Victualling and slopchest	1,762	1,577	1,475
Spare parts and consumables ¹	1,468	-	-
Other	3,259	3,161	3,772
	<u>76,317</u>	<u>51,025</u>	<u>48,060</u>

¹ Acquired from the owners on chartering in of seismic vessel Vyacheslav Tikhonov

The amounts expensed during the period are disclosed in Note 7, Voyage Expenses and Commissions, and Note 8, Vessels' Running Costs.

26. Trade and Other Receivables

	2011 \$'000	2010 \$'000	2009 \$'000
Non-current assets			
Other receivables	10,004	2,491	1,779
Accrued income	23,521	13,417	-
	<u>33,525</u>	<u>15,908</u>	<u>1,779</u>
Current assets			
Amounts due from charterers	81,482	69,703	48,077
Allowance for credit losses	(4,975)	(2,782)	(3,041)
	76,507	66,921	45,036
Casualty and other claims	12,712	12,106	12,566
Agents' balances	14,459	12,040	10,236
Other receivables	22,610	21,649	23,786
Security deposits	31,279	34,633	32,934
Amounts due from lessee for finance leases	12,128	2,637	1,166
Receivables under High Court judgement award (Note 44)	-	55,675	-
Prepayments	13,457	8,506	14,417
Voyage suspense account	17,554	12,358	17,272
Accrued income	36,857	7,305	2,628
	<u>237,563</u>	<u>233,830</u>	<u>160,041</u>

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

Freight from voyage charters 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.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

26. Trade and Other Receivables (Continued)

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. As at 31 December 2011 \$41.7 million (2010 – \$42.8 million) of amounts due from charterers are neither past due nor impaired.

As at 31 December 2011, charterers with a carrying amount of \$34.8 million (2010 – \$24.1 million) 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:

	2011 \$'000	2010 \$'000	2009 \$'000
Up to one month	23,818	9,201	6,786
One to two months	4,290	3,017	3,778
Two to three months	1,529	1,565	1,330
Three to four months	1,240	2,101	292
More than four months	3,908	8,238	4,972
	<u>34,785</u>	<u>24,122</u>	<u>17,158</u>

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

	2011 \$'000	2010 \$'000	2009 \$'000
At 1 January	2,782	3,041	2,876
Amounts written off during the period	(497)	(360)	(7)
Amounts recovered during the period and recognised in the income statement	(167)	(4)	(455)
Increase in allowance recognised in the income statement	2,859	138	613
Exchange adjustments	(2)	(33)	14
At 31 December	<u>(4,975)</u>	<u>2,782</u>	<u>3,041</u>

Security deposits comprised the following:

- an amount of \$18.1 million (2010 – \$21.1 million) representing securities placed to the Court's Funds Office to cover potential legal costs of the Defendants connected with the claims described in Note 44.
- an amount, including accrued interest, of \$13.1 million (2010 – \$13.5 million) held as security by the American Courts, in relation to the arrest of one of the Group's vessels in the United States, as a result of a claim advanced by the charterers of the vessel at the time, relating to the grounding of the vessel in the Suez canal in November 2004. The claim is in arbitration. Management is of the opinion that the claim is without merit and the Group will defend its position vigorously. Accordingly no provision has been made against this amount.

Amounts due from lessee for finance leases of \$10.8 million (2010 – \$2.0 million) were past due at the reporting date. No provisions have been made against these receivable.

The voyage suspense account contains residual prepaid and accrued income and costs relating to the Group's policy of applying a rateable approach to the recognition of voyage charter results at each period end.

Other non-current receivables include guarantee funds of \$8.3 million placed in escrow in relation to the chartering in of the seismic vessel Vyacheslav Tikhonov.

27. Cash and Bank Deposits

	2011 \$'000	2010 \$'000	2009 \$'000
Cash and bank deposits	389,742	512,172	335,695
Bank deposits accessible on maturity	(932)	(6,562)	-
Retention accounts	(26,680)	(20,586)	(17,498)
Security deposits held as counter security for claims (Note 44)	(10,400)	(30,698)	(30,698)
Restricted deposits	(11,918)	(10,898)	(21,518)
Cash and cash equivalents	<u>339,812</u>	<u>443,428</u>	<u>265,981</u>

Retention accounts are bank accounts designated by the Group's lenders for the purposes of the secured bank loan agreements referred to in Note 34. These funds are accumulated to cover future loan principal and interest repayments. Restricted deposits represent additional security for the purposes of certain secured loan agreements.

Under the terms of the agreements, two subsidiaries of the Group have to maintain freely available bank balances and cash in the amount of not less than \$35.0 million each. The amount of freely available bank balances and cash that had to be maintained under the terms of the agreements as at 31 December 2011 were \$35.0 million (2010 – \$35.0 million) and \$35.0 million (2010 – \$38.6 million) respectively.

In addition under the terms of the agreements, one of the two subsidiaries has to maintain minimum liquidity of not less than \$50.0 million and at least 50% of the minimum liquidity has to be maintained in cash and cash equivalents. The amount of cash and cash equivalents that had to be maintained under the terms of the agreements as at 31 December 2011 was \$98.2 million (2010 – \$90.7 million).

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and in bank as stated above.

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Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)

28. Non-Current Assets Held for Sale

	2011 \$'000	2010 \$'000
At 1 January	46,622	31,446
Expenditure in the period	1,231	-
Transfer from fleet (Note 14)	-	46,622
Impairment provision	(4,081)	-
Disposals	<u>(33,972)</u>	<u>(31,446)</u>
At 31 December	<u>9,800</u>	<u>46,622</u>
Current insured value (\$'000)	<u>13,000</u>	<u>56,500</u>
Total deadweight tonnage (dwt)	<u>40,000</u>	<u>148,764</u>

Prior to the period ended 31 December 2010 the Group had made a decision to sell three oil product Handymax tankers and three multi-purpose cargo vessels. These vessels were actively marketed for sale at a price approximate to their market values. These vessels had been classified as non-current assets held for sale as at 31 December 2010 and were presented separately in the statement of financial position. All three multi-purpose cargo vessels and two of the three oil product Handymax tankers were sold and delivered to their new owners in March 2011 and August 2011 respectively, realising a gain on disposal of \$2.9 million. The last oil product Handymax tankers was sold in March 2012 realising a loss on disposal of \$0.2 million (see also Note 46).

Non-current assets held for sale as at 1 January 2010 comprised two crude oil Suezmax tankers and two multi-purpose cargo vessels all of which were sold in 2010. The gain on disposal of the vessels recognised in the income statement for the period ended 31 December 2010 was \$3.8 million.

29. Share Capital

	2011 \$'000	2010 \$'000	2009 \$'000
Authorised, issued and fully paid 1,966,697,210 shares of 1 Rouble each	<u>405,012</u>	<u>405,012</u>	<u>405,012</u>
Share premium arising from issue of shares in exchange for shares in JSC Novoship in 2007 (Note 40)	<u>818,845</u>	<u>818,845</u>	<u>818,845</u>

30. Group Reconstruction Reserve

	2011 \$'000	2010 \$'000	2009 \$'000
Surplus arising on Group reconstruction in 2007	8,960	8,960	8,960
Shares issued by OAO Sovcomflot in exchange for shares in JSC Novoship in 2007 (Note 40)	<u>(843,450)</u>	<u>(843,450)</u>	<u>(843,450)</u>
	<u>(834,490)</u>	<u>(834,490)</u>	<u>(834,490)</u>

In 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in JSC Novoship, a company incorporated in the Russian Federation, to OAO Sovcomflot in exchange for 602,158,693 shares of the company, at a price of 34.28 Roubles (\$1.40071) per share (see also Note 29), thus uniting its interest in the two companies. As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of JSC Novoship has been accounted for on a pooling of interests basis.

31. Dividends

Dividends of Rouble 0.51 per share totalling Roubles 1,000.0 million (2010 - 0.47 Rouble per share totalling Roubles 920.6 million), equivalent to \$35.6 million (2010 – \$29.7 million) were declared on 30 June 2011 and paid on 18 July 2011.

32. Non-Controlling Interest

	Hedging reserve \$'000	Fair value reserve \$'000	Currency reserve \$'000	Retained earnings \$'000	Total \$'000
As at 1 January 2010	(132)	171	(214)	202,492	202,317
Total comprehensive income	132	(169)	(136)	1,137	964
Dividends	-	-	-	(1,457)	(1,457)
Repurchase of non-controlling own shares by JSC Novoship	-	(2)	25	(15,523)	(15,500)
As at 31 December 2010	-	-	(325)	186,649	186,324
Total comprehensive income	-	-	(483)	1,420	937
Dividends	-	-	-	(963)	(963)
Repurchase of non-controlling own shares by JSC Novoship	-	-	71	(26,380)	(26,309)
As at 31 December 2011	<u>-</u>	<u>-</u>	<u>(737)</u>	<u>160,726</u>	<u>159,989</u>

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(Continued)

33. Trade and Other Payables

	2011 \$'000	2010 \$'000	2009 \$'000
Non-current liabilities			
Other payables	-	5,084	4,733
Current liabilities			
Trade payables	68,502	39,693	45,292
Other payables	48,772	47,111	20,892
Accrued liabilities	67,533	56,594	53,811
Amounts due to joint venture partner	-	53,932	-
Deferred income	42,861	38,624	41,778
Accrued interest	17,608	17,849	10,616
	<u>245,276</u>	<u>253,803</u>	<u>172,389</u>

34. Secured Bank Loans

The balances of the loans at the period end, net of direct issue costs, which include the Group's share of loans of the joint ventures are summarised as follows:

	2011 \$'000	2010 \$'000	2009 \$'000
Repayable			
- within twelve months after the end of the reporting period	258,776	173,231	196,878
- between one to two years	538,109	214,593	161,510
- between two to three years	169,390	246,976	202,865
- between three to four years	373,393	213,609	843,001
- between four to five years	112,415	296,095	167,188
- more than five years	710,116	731,506	960,134
	2,162,199	1,876,010	2,531,576
Less current portion (current liabilities)	<u>(258,776)</u>	<u>(173,231)</u>	<u>(196,878)</u>
Long-term balance (non-current liabilities)	<u>1,903,423</u>	<u>1,702,779</u>	<u>2,334,698</u>

The interest rates applicable for the secured bank loans during the period are as follows:

Contractual interest rates	Interest rate		Outstanding loans gross of financing costs		Maturity
	2011	2010	2011 \$'000	2010 \$'000	
Floating rate loans between 0.35%-2.50% per annum	Libor+0.91% ¹	Libor+0.80% ¹	2,031,834	1,724,266	Between December 2012 - March 2021
Fixed rate	4.75%	4.75%	32,400	37,200	July 2018
Fixed rate	5.19%	5.19%	41,642	47,481	July 2019
Fixed rate	5.50% ²	5.50% ²	66,558	77,786	July 2018
			<u>2,172,434</u>	<u>1,886,733</u>	

¹ Weighted average margin for the period

² In accordance with the loan agreement the secured bank loan is fixed at 4.75% per annum plus margins of 0.50% or 0.75% depending on the employment of the vessels mortgaged.

The Group has the option to repay in whole or any part of the loans on the last date of each monthly, quarterly or semi-annual interest period or such longer interest period as the lenders may agree.

As security for the loans, the lenders have first preferred mortgages on Group vessels with an aggregate carrying value at 31 December 2011 of \$3,999.0 million (2010 – \$4,101.5 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in Note 15 and pledges of shares in certain of the vessel owning companies.

The Group has also guaranteed its share of obligations and responsibilities arising under the loan agreements of its joint ventures referred to in Note 21.

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.

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(Continued)**

35. Finance Lease Liabilities

	2011	2010	2009
	\$'000	\$'000	\$'000
Repayable			
- within twelve months after the end of the reporting period	9,363	52,248	54,099
- after one year but not more than five years	47,998	47,232	57,732
- more than five years	173,690	183,819	-
	<u>231,051</u>	<u>283,299</u>	<u>111,831</u>
Less current portion (current liabilities)	<u>(9,363)</u>	<u>(52,248)</u>	<u>(54,099)</u>
Long-term balance (non-current liabilities)	<u><u>221,688</u></u>	<u><u>231,051</u></u>	<u><u>57,732</u></u>

The Group, through the acquisition of Marpetrol in 2006, acquired the obligations under two bareboat charter agreements entered into by Marpetrol on 16 February 2005 when it sold and leased back two of its vessels for an aggregate consideration of \$26.0 million at an effective interest rate of 6.79% per annum.

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

Both Marpetrol and the lessor have call and put options, respectively, requiring the lessor to sell the vessels to the Group or the Group to buy the vessels from the lessor, at the end of the principal lease period and at the end of each of the five year extension periods at predetermined prices ranging from \$2.8 million to \$7.8 million.

In addition, during 2008 the Group entered into time charter agreements for the chartering in of two Ice class Handymax Product tankers expiring in June 2010 and February 2011. The charter hires were payable monthly in advance at daily rates of \$25,000. At the inception of the leases, the Group had the intention to exercise its option to acquire the vessels on expiry of the time charter agreements at predetermined prices. Consequently, the vessels had been recognised as fleet with a corresponding finance lease liability. The effective interest rates implicit in these finance leases were 6.46% and 8.90% per annum respectively.

The market value of these vessels, provided by independent professional brokers, was substantially lower than the option exercise price and therefore the Group did not exercise its option for either of the two vessels. Consequently both the finance lease liability and the carrying value of the vessel were derecognised on expiry of each of the time charter agreements in June 2010 and February 2011 respectively.

On 7 September and 16 November 2010 the Group sold and leased back, under bareboat charter, two of its vessels, for an aggregate consideration of \$230.0 million at effective interest rates of 6.52% per annum.

The charter hires are payable monthly in advance at monthly rates of \$926,652 per vessel expiring in September and November 2017 respectively. On expiration of the bareboat charter agreements, the Group has an obligation to repurchase the vessels from the lessors for an aggregate consideration of \$165.6 million. The Group has the right to re-purchase the vessels at any time during the bareboat charter period at predetermined prices.

36. Provisions for Onerous Contracts

	2011	2010	2009
	\$'000	\$'000	\$'000
At 1 January	-	12,918	40,687
Utilised	-	(10,110)	(5,700)
Released during the period	-	(2,808)	(22,069)
At 31 December	-	-	12,918
Current balance	-	-	(10,110)
Non-current balance	-	-	2,808

Provision for onerous contracts relates to that portion of impairment in respect of vessels under construction and new building contracts that payment had not yet been made to the shipyard.

As at 31 December 2010 management carried out an impairment review of the carrying amounts of vessels under construction and contracts for the construction of vessels and concluded that the recoverable amount is the higher of their market values, provided by independent professional brokers, and their future value in use. The review led to a release of the impairment provision made at 31 December 2008 in respect of an ice-class Aframax tanker of which \$2.8 million was first allocated to payments made under these contracts during the period and \$2.8 million has been allocated against the provision.

As at 31 December 2011 management carried out an impairment review of the carrying amounts of vessels under construction and contracts for the construction of vessels and concluded that the recoverable amount is the higher of their market values, provided by independent professional brokers, and their future value in use. The review did not lead to any recognition of impairment provision.

The main assumptions used in performing value in use calculations are disclosed in Note 14 of these consolidated financial statements.

The following sensitivity analysis has been performed by management as at 31 December 2011, all other things being equal:

- A decrease in freight rates of 10% over the useful economic life of the vessels under construction after delivery from the shipyards would not result in any impairment provision (2010 – \$4.0 million decrease in reversal of previously provided impairments); and
- An increase in the discount rate of 1% would not result in any impairment provision as at 31 December 2011 (2010 – no change in the reversal of previously provided impairments).

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37. Retirement Benefit Obligations

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
Long-term service retirement benefit plans	4,011	3,231	3,345
Less past service cost	<u>(1,610)</u>	<u>(1,934)</u>	<u>(2,337)</u>
	2,401	1,297	1,008
Post retirement pension benefit plans	<u>5,596</u>	<u>6,943</u>	<u>4,289</u>
Net liability	<u><u>7,997</u></u>	<u><u>8,240</u></u>	<u><u>5,297</u></u>

A subsidiary of the Group operates two defined benefit retirement plans, a post retirement pension benefit plan and a long-term service retirement benefit plan for its seafarers and shore based staff.

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

Changes in the past service cost relating to long-term service retirement benefit plan are as follows:

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
At 1 January	1,934	2,337	2,688
Amortisation of past service costs	<u>(324)</u>	<u>(403)</u>	<u>(351)</u>
At 31 December	<u><u>1,610</u></u>	<u><u>1,934</u></u>	<u><u>2,337</u></u>

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

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>	<u>2008</u> <u>\$'000</u>	<u>2007</u> <u>\$'000</u>
Defined benefit obligation at 1 January	6,943	4,289	4,491	2,066	1,925
Interest cost	524	326	382	134	195
Past service costs	-	1,895	-	-	-
Benefits paid	(777)	(879)	(658)	(780)	(817)
Exchange rate differences	(373)	(52)	(121)	(290)	120
Actuarial (gains) / losses on obligation	<u>(721)</u>	<u>1,364</u>	<u>195</u>	<u>3,361</u>	<u>643</u>
Defined benefit obligation at 31 December	<u><u>5,596</u></u>	<u><u>6,943</u></u>	<u><u>4,289</u></u>	<u><u>4,491</u></u>	<u><u>2,066</u></u>

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

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>	<u>2008</u> <u>\$'000</u>	<u>2007</u> <u>\$'000</u>
Defined benefit obligation at 1 January	3,231	3,345	4,046	2,278	-
Current service costs	217	154	154	122	-
Interest cost	145	162	240	148	-
Past service costs	-	-	-	2,805	2,278
Benefits paid	(155)	(487)	(135)	(416)	-
Exchange rate differences	(41)	(70)	(53)	(413)	-
Actuarial losses / (gains) on obligation	<u>614</u>	<u>127</u>	<u>(907)</u>	<u>(478)</u>	<u>-</u>
Defined benefit obligation at 31 December	<u><u>4,011</u></u>	<u><u>3,231</u></u>	<u><u>3,345</u></u>	<u><u>4,046</u></u>	<u><u>2,278</u></u>

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

37. Retirement Benefit Obligations (Continued)

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

	Post retirement pension benefit plans		Long-term service retirement benefit plans		Total recognised in the income statement	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current service cost	-	-	217	154	217	154
Interest cost	524	326	145	162	669	488
Past service cost	-	1,895	324	403	324	2,298
Actuarial (gains) / losses recognised in the period	(721)	1,364	614	127	(107)	1,491
Exchange rate differences	(373)	(52)	(41)	(70)	(414)	(122)
	<u>(570)</u>	<u>3,533</u>	<u>1,259</u>	<u>776</u>	<u>689</u>	<u>4,309</u>

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

	2011	2010
Discount rate for cash flows in Russian Roubles	8.00%	8.00%
Discount rate for cash flows in US Dollars	2.76%	3.70%
Future salary increases in Russian Roubles	6.00%	5.00%
Future salary increases in US Dollars	2.00%	2.00%
Future pension increases	1.50%	4.00%
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 \$1.0 million (2010 - \$1.0 million) to the defined benefit plans in the annual period beginning after the reporting period end. The experience adjustments on the plans liabilities amounted to \$0.1 million (2010 - \$0.6 million).

38. Other Loans

	2011 \$'000	2010 \$'000
5.375% Senior Notes	797,005	796,498

On 27 October 2010, the Group, through its subsidiary SCF Capital Limited, issued Senior Notes (the "Notes") of \$800 million, redeemable at par value, maturing on 27 October 2017. The Notes are unsecured and guaranteed by Sovcomflot. The Notes are included above net of amortised financing costs. There are no equity conversion rights or options attached to the Notes.

Interest accrues at 5.375% from 27 October 2010 and is payable semi-annually in arrears on 27 April and 27 October of each year, commencing on 27 April 2011. Interest charged during the period amounted to \$43.0 million (2010 - \$7.9 million).

39. Cash Generated From Operations

	2011 \$'000	2010 \$'000
Profit for the period before income taxes	71,202	187,955
Share of losses in associates	10,873	6,255
Depreciation and amortisation	244,817	236,532
Investment property depreciation	875	935
Release of impairment of vessels under construction	-	(19,659)
Release of provision for onerous contract	-	(2,808)
Vessels' drydock cost amortisation	35,268	40,220
(Gain) / loss on sale of assets	(12,190)	10,064
Gain on disposal of other investments	(283)	(1,229)
Interest and financing expenses	146,517	117,137
Bank and other interest receivable	(22,027)	(39,159)
(Gain) / loss on derivative financial instruments held for trading	(8,566)	5,413
Loss on ineffective hedging instruments	1,512	624
Loss / (gain) on investments held for trading	3	(303)
Foreign exchange differences	1,086	3,419
Increase in allowance for credit losses	2,710	222
Operating cash flows before movements in working capital	471,797	545,618
Increase in inventories	(25,292)	(2,965)
Increase in trade and other receivables	(21,350)	(78,737)
(Decrease) / increase in trade and other payables	(23,949)	27,833
Cash generated from operations	<u>401,206</u>	<u>491,749</u>

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

40. Significant Subsidiary Companies

In addition to the joint ventures referred to in Note 21, at 31 December 2011, the Group had 119 single vessel owning and operating subsidiaries incorporated in Liberia, Malta, Cyprus, Russia, Spain and the Marshall Islands. The most significant subsidiaries of the Group comprised:

Name	Country of Incorporation	Percentage Holding	Principal Activity
JSC Novoship	Russia	88.61%	Shipowning and operating and ship management
Fiona Trust and Holding Corporation and its subsidiaries	Liberia	100%	Vessel owning and operation
Intrigue Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
Sovcomflot Bulk Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Marpetrol, S.A. and its subsidiaries	Spain	100%	Vessel owning and operation and ship management
Sovcomflot Varandey LLC	Russia	100%	Ship operation
Sovcomflot (UK) Ltd	UK	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
Unicom Management Services (Cyprus) Limited	Cyprus	100%	Ship management
Unicom Management Services (St. Petersburg) Ltd	Russia	100%	Ship management
SCF Unicom Singapore Pte Ltd	Singapore	100%	Ship management
SCF Capital Limited	Ireland	100%	Financing

On 5 December 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred to Sovcomflot its 50.34% shareholding (67.13% of the ordinary shares) in Novoship, a company incorporated in the Russian Federation, in exchange for 602,158,693 shares of the company.

Following two mandatory public offers by Sovcomflot to the non-controlling ordinary shareholders of Novoship in 2008 and two repurchases of non-controlling preference shares by Novoship in 2009 the effective interest of Sovcomflot in Novoship increased from 50.34% to 86.63% as at 31 December 2009.

In March 2010 the Group made a public offer to the holders of Novoship ordinary shares to buy back up to 10% of the remaining share capital of Novoship, i.e. 41,266,042 shares. A total of 40,626,198 shares were transferred back to the company including 40,000,000 shares held by subsidiaries of Novoship. These shares were cancelled in October 2010.

In September 2010 the Group launched a fourth buyback of Novoship ordinary shares and preference shares. The buyback was completed in December 2010. A total of 26,729,508 ordinary shares, including 26,347,613 shares held by a subsidiary of Novoship, and 2,652,438 preference shares were transferred back to the company. These shares were cancelled in December 2010.

In March 2011 the Group launched a fifth buyback of Novoship ordinary and preference shares. The buyback was completed in May 2011. A total of 186,992 ordinary shares and 3,402,740 preference shares were transferred back to the company. These shares were cancelled on 9 September 2011. In addition, following an internal reorganisation of the Novoship Group, Novoship absorbed its subsidiary, JSC Novoshipinvest Plus, which held 20,898,606 ordinary shares in Novoship, on 21 June 2011. The shares acquired from the subsidiary were cancelled on 5 July 2011.

In November 2011 the Group launched a sixth buyback of Novoship ordinary and preference shares. The buyback was completed in December 2011. A total of 562,972 ordinary shares and 1,971,849 preference shares were effectively controlled by Novoship as at 31 December 2011 of which 152,611 preference shares were not formally registered in the name Novoship until January 2012. The liability to non-controlling shareholders arising due to the share buyback as at 31 December 2011 amounted to \$3.1 million. This liability was settled in full in January 2012.

The share capital of Novoship comprises voting ordinary shares and non-voting preference shares. Ownership of the shares is analysed as follows:

	31 December 2011			31 December 2010		
	Ordinary shares	Preference shares	Total shares	Ordinary shares	Preference shares	Total shares
	%	%	%	%	%	%
Share capital composition	90.88	9.12	100.00	90.03	9.97	100.00
OAo Sovcomflot	98.09	-	88.61	91.39	-	82.27
Treasury shares held by JSC Novoship	0.20	6.41	0.79	-	-	-
Treasury shares held by subsidiaries of JSC Novoship	-	-	-	6.77	-	6.10
Non-controlling shareholders	1.71	93.59	10.60	1.84	100.00	11.63
	100.00	100.00	100.00	100.00	100.00	100.00

Ordinary and preference shareholders of Novoship participate equally in the distribution of the net assets of the company on liquidation. Consequently Sovcomflot holds an effective interest in Novoship of 89.32% (2010 – 87.62%).

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

41. Financial Risk Management

(a) Capital management

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

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

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

The Group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio. The net debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net adjusted debt ratio is calculated as net debt divided by net debt plus total equity as adjusted for the excess or deficit of the market value of the fleet over/under its carrying amount as disclosed in Note 14 ("total adjusted capital"). Net debt is calculated as the total of secured bank loans, other loans and finance lease liabilities, disclosed in Notes 34, 35 and 38 of the financial statements respectively, less cash and bank deposits (Note 27). 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 2011 the Group's overall strategy remained unchanged from 2010. The net debt ratio at 31 December 2011 and at 31 December 2010 and the net adjusted debt ratio of the Group were as follows:

	2011 \$'000	2010 \$'000
Secured bank loans (Note 34)	2,162,199	1,876,010
Finance lease liabilities (Note 35)	231,051	283,299
Other loans (Note 38)	797,005	796,498
Less: cash and bank deposits (Note 27)	(389,742)	(512,172)
Net debt	2,800,513	2,443,635
Total equity	3,085,172	3,123,021
Total capital	5,885,685	5,566,656
Net debt ratio	47.6%	43.9%
Total capital	5,885,685	5,566,656
(Deficit) / excess of market value of fleet over carrying value	(409,820)	74,852
Total adjusted capital	5,475,865	5,641,508
Net adjusted debt ratio	51.1%	43.3%

(b) Categories of financial instruments

	2011 \$'000	2010 \$'000
Financial assets		
Derivative financial instruments	-	1,542
Cash and bank deposits	389,742	512,172
Investments in associates	1,273	1,464
Available-for-sale investments	1,381	2,293
Loans and other receivables	240,077	228,874
Finance lease receivables	94,859	95,041
Total financial assets	727,332	841,386
Financial liabilities		
Derivative financial instruments	153,218	108,559
Financial liabilities at fair value through profit or loss	34,871	43,437
Secured bank loans (Note 34)	2,162,199	1,876,010
Other loans (Note 38)	797,005	796,498
Finance lease liabilities (Note 35)	231,051	283,299
Financial liabilities measured at amortised cost	205,496	220,263
Total financial liabilities	3,583,840	3,328,066

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

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

(c) Fair value of financial instruments

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

	Carrying Value		Fair Value	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Financial assets				
Derivative financial instruments	-	1,542	-	1,542
Cash and bank deposits	389,742	512,172	389,742	512,172
Investments	2,654	3,757	2,654	3,757
Loans and receivables	334,936	323,915	334,936	323,915
Total financial assets	727,332	841,386	727,332	841,386
Financial liabilities				
Derivative financial instruments	188,089	151,996	188,089	151,996
Financial liabilities measured at amortised cost	205,496	220,263	205,496	220,263
Borrowings at fixed interest rates	140,276	162,057	138,739	157,975
Borrowings at floating interest rates	2,021,923	1,713,953	1,892,568	1,628,550
Unsecured loan	797,005	796,498	696,000	783,040
Finance lease liabilities	231,051	283,299	188,514	222,832
Total financial liabilities	3,583,840	3,328,066	3,309,406	3,164,656

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

Fair value measurements of financial instruments recognised in the statement of financial position

The following table provides an analysis of financial instruments as at 31 December 2011 and 31 December 2010 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.

31 December 2011

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Russian State bonds	-	-	-	-
Derivative financial instruments in designated hedge accounting relationships	-	-	-	-
	-	-	-	-
Financial liabilities				
Derivative financial instruments classified at fair value through profit or loss	-	34,871	-	34,871
Derivative financial instruments in designated hedge accounting relationships	-	153,218	-	153,218
	-	188,089	-	188,089

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

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

(c) Fair value of financial instruments (continued)

31 December 2010

	<u>Level 1</u> <u>\$'000</u>	<u>Level 2</u> <u>\$'000</u>	<u>Level 3</u> <u>\$'000</u>	<u>Total</u> <u>\$'000</u>
Financial Assets				
Russian State bonds	503	-	-	503
Derivative financial instruments in designated hedge accounting relationships	-	1,542	-	1,542
	<u>503</u>	<u>1,542</u>	<u>-</u>	<u>2,045</u>
Financial liabilities				
Derivative financial instruments classified at fair value through profit or loss	-	43,437	-	43,437
Derivative financial instruments in designated hedge accounting relationships	-	108,559	-	108,559
	<u>-</u>	<u>151,996</u>	<u>-</u>	<u>151,996</u>

There were no transfers between Level 1 and 2 during the periods ended 31 December 2011 and 31 December 2010.

(d) Financial risk factors

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

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

Market risk

Foreign currency risk

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

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

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	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Euro (EUR)	22,927	11,924	35,123	17,730
Russian Roubles (RUB)	28,345	16,478	23,712	33,795
Sterling Pounds (GBP)	3,097	3,145	22,746	17,061
Others	<u>2,178</u>	<u>3,140</u>	<u>2,923</u>	<u>2,171</u>

Had the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December increased by 10% (2010 – 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	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Euro (EUR)	2,084	1,084	3,193	1,612
Russian Roubles (RUB)	2,577	1,498	2,156	3,072
Sterling Pounds (GBP)	282	286	2,068	1,551
Others	<u>198</u>	<u>285</u>	<u>266</u>	<u>197</u>

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

41. Financial Risk Management (Continued)

(d) Financial risk factors (continued)

Foreign currency risk (continued)

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

	Liabilities		Assets	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Euro (EUR)	2,547	1,325	3,903	1,970
Russian Roubles (RUB)	3,149	1,831	2,635	3,755
Sterling Pounds (GBP)	344	349	2,527	1,896
Others	242	349	325	241

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 2011 and 2010 all of the Group's borrowings were denominated in U.S. Dollars.

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

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

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

	2011 \$'000	2010 \$'000
Total floating rate borrowings (gross of direct issue costs)	2,031,834	1,724,266
Notional amount of floating to fixed rate swaps qualifying under IAS 32 / IAS39 (Note 23(a))	(790,993)	(786,899)
Net exposure to interest fluctuations under IAS 32 / IAS 39	1,240,841	937,367
Less notional amount of interest rate financial instruments held for trading (Note 23(b))	(485,750)	(538,750)
Net exposure to interest rate fluctuations	755,091	398,617
% of floating rate borrowings exposed to interest rate fluctuations	37.16%	23.12%

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

- other comprehensive income and profit or loss for the period would increase by approximately \$53.9 million and \$1.7 million / decrease by approximately \$65.2 million and \$1.8 million respectively (2010 – increase by approximately \$45.5 million and \$1.8 million / decrease by approximately \$55.9 million and \$1.9 million) due to the change in the fair value of interest rate swaps designated as hedging instruments; and
- profit for the period ended 31 December 2011 would increase / decrease by approximately \$24.6 million (2010 – \$29.6 million) due to the change in the fair value of the derivative financial instruments held for trading through profit or loss.

If interest rates had been 100 basis points higher / 25 basis points lower and all other variables held constant, the Group's:

- total interest payable, for the period ended 31 December 2011 would increase approximately by \$5.9 million and decrease approximately by \$1.5 million (2010 – increase by \$9.8 million, decrease by \$2.4 million), excluding any interest capitalised. This is mainly attributable to the exposure of the Group's floating rate borrowings not hedged.

The Group's sensitivity to interest rate net exposure has increased during the period primarily as a result of an increase in floating rate borrowings.

Spot market rate risk

The Group is exposed to spot market rate risk arising from the cyclical nature of the shipping industry that may lead to volatile changes in charter rates and vessel values that might adversely affect its position and financial performance. The Group is not engaged in any derivative forward freight agreements or futures. Exposure to spot market rate risk is managed by maintaining an optimal mix between vessels trading on time and voyage charters in accordance with the set policies of the Group. During the period 59.86% (2010 – 61.44%) of the vessels' total trading days were on time charter representing 73.32% (2010 – 72.81%) of time charter equivalent revenues. As at 31 December 2011, 57.53% (2010 – 60.87%) of the vessels were on time charter.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

41. Financial Risk Management (Continued)

(d) Financial risk factors (continued)

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.

In determining the recoverability of a charterer, the Group performs a risk analysis considering the credit quality of the charterer, the age of the outstanding amount and any past default experience. The concentration of credit risk is limited due to the customer base being large and unrelated. As at 31 December 2011, amounts due from charterers included one charterer (2010 – zero) with a balance of freight and hire due representing of 11.2% of total amounts due. Management believes that there is no further credit provision required in excess of the allowance for credit losses. In addition, no charterers represent more than 10% of total freight and hire revenue for the period ended 31 December 2011 (2010 – none).

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. Management continuously monitors the credit-rating of each of the counterparties and maintains the majority of its liquid funds with the Group's lenders which are investment grade financial institutions. Management also monitors the concentration of bank deposits and takes appropriate action to minimise exposure to any one bank. Cash and bank deposits include deposits with three banks (2010 – three) representing 14.36%, 12.77% and 10.92% (2010 – 31.42%, 10.44% and 10.04%) of total deposits of \$388.4 million (2010 – \$511.0 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.

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

Below is a table summarising additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

	Credit facilities \$'000	Drawn down \$'000	Available \$'000
<u>At 31 December 2011</u>			
Secured bank loans	17,308	(14,189)	3,119
Secured revolving credit facilities	1,019,730	(547,900)	471,830
	<u>1,037,038</u>	<u>(562,089)</u>	<u>474,949</u>
<u>At 31 December 2010</u>			
Secured bank loans	-	-	-
Secured revolving credit facilities	1,098,112	(174,160)	923,952
	<u>1,098,112</u>	<u>(174,160)</u>	<u>923,952</u>

Availability of secured revolving credit facilities is subject to compliance with the relevant loan to value covenants of each of the facilities based on the market value of the vessels used as collateral.

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.

	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
<u>At 31 December 2011</u>				
Trade and other payables	217,715	-	-	217,715
Retirement benefit obligations	-	7,997	-	7,997
Minimum lease payments under finance leases	24,783	100,378	182,280	307,441
Secured bank loans	260,672	1,199,042	712,720	2,172,434
Other loans	-	-	800,000	800,000
Interest payable on derivative instruments	52,029	122,072	64,822	238,923
Interest payable on secured loans	33,551	95,484	37,390	166,425
Interest payable on other loans	43,717	174,508	43,597	261,822
	<u>632,467</u>	<u>1,699,481</u>	<u>1,840,809</u>	<u>4,172,757</u>
<u>At 31 December 2010</u>				
Trade and other payables	220,527	6,592	-	227,119
Retirement benefit obligations	-	8,240	-	8,240
Minimum lease payments under finance leases	26,002	102,942	204,519	333,463
Secured bank loans	175,070	977,157	734,507	1,886,734
Other loans	-	-	800,000	800,000
Interest payable on derivative instruments	52,257	129,976	77,004	259,237
Interest payable on secured loans	28,796	106,655	51,894	187,345
Interest payable on other loans	43,717	174,508	87,314	305,539
	<u>546,369</u>	<u>1,506,070</u>	<u>1,955,238</u>	<u>4,007,677</u>

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

41. Financial Risk Management (Continued)

(d) Financial risk factors (continued)

Liquidity risk (continued)

The payment of the Group's contractual commitments under its newbuilding programme referred to in Note 15, including the additional commitments resulting from the amendments of two Panamax Bulk carrier contracts to LPG contracts (see note 46), and in respect of the construction and development facilities of the port of Sochi, in connection with the preparation for the Olympic sites for the 2014 Winter Olympic Games in Sochi, is summarised as follows:

	<u>Less than 1 year \$'000</u>	<u>1 to 5 years \$'000</u>	<u>Total \$'000</u>
<u>At 31 December 2011</u>			
Newbuilding contracts	283,889	661,489	945,378
Construction and development cost for Sochi	28,000	27,400	55,400
	<u>311,889</u>	<u>688,889</u>	<u>1,000,778</u>
<u>At 31 December 2010</u>			
Newbuilding contracts	116,145	459,328	575,473
Construction and development cost for Sochi	-	-	-
	<u>116,145</u>	<u>459,328</u>	<u>575,473</u>

42. Operating Lease Arrangements

The Group has the following non-cancellable operating lease commitments in respect of vessels and office premises in London, Madrid, Moscow and Singapore (see also Note 43):

	<u>Vessels</u>		<u>Buildings</u>	
	<u>2011 \$'000</u>	<u>2010 \$'000</u>	<u>2011 \$'000</u>	<u>2010 \$'000</u>
Within one year	33,413	15,437	3,657	3,034
After one year but not more than five years	92,088	278	5,978	7,061
More than five years	-	-	-	296
	<u>125,501</u>	<u>15,715</u>	<u>9,635</u>	<u>10,391</u>
Expensed during the period	<u>38,349</u>	<u>21,613</u>	<u>3,576</u>	<u>2,389</u>

43. Contingent Liabilities and Commitments

Contracted revenues and guarantees

The Group entered into time charter agreements, with aggregate hire revenues as at 31 December 2011 over the firm contract period receivable as follows:

31 December 2011

	<u>Less than 1 year \$'000</u>	<u>1 to 5 years \$'000</u>	<u>More than 5 years \$'000</u>	<u>Total \$'000</u>
Group's share of contracted revenues of joint ventures (Note 21)	33,594	169,286	433,697	636,577
Contracted revenues of subsidiaries	458,346	1,355,954	2,233,123	4,047,423
	<u>491,940</u>	<u>1,525,240</u>	<u>2,666,820</u>	<u>4,684,000</u>

31 December 2010

	<u>Less than 1 year \$'000</u>	<u>1 to 5 years \$'000</u>	<u>More than 5 years \$'000</u>	<u>Total \$'000</u>
Group's share of contracted revenues of joint ventures (Note 21)	41,381	165,382	465,960	672,723
Contracted revenues of subsidiaries	470,428	953,339	1,388,669	2,812,436
	<u>511,809</u>	<u>1,118,721</u>	<u>1,854,629</u>	<u>3,485,159</u>

The time charters referred to above include various charterers' purchase, termination and extension options.

The joint venture companies owning LNG carriers, referred to in Note 21, entered into four time charter agreements which expire between sixteen and twenty years with various extension options with aggregate time charter hire receivable as at the period end over the remaining firm charter periods amounting to \$1,386.5 million (2010 - \$1,441.6 million). Under two of the time charter agreements the charterers have the option to purchase the vessels in years five, ten, fifteen or twenty of the charters at amounts for each vessel ranging from \$176.4 million in the fifth year to \$35.0 million in the twentieth year. Fiona has guaranteed its share of obligations and responsibilities arising under the above time charter agreements.

In addition to the guarantees obtained by the Group from the shareholders of the State controlled entity referred to in Note 45(ii), the Group obtained guarantees from the shareholders of the charterers in respect of the performance of the obligations of the charterers under the time charter agreements referred to in Note 19(a).

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

43. Contingent Liabilities and Commitments (Continued)

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 foreign jurisdictions traditionally utilised in the shipping sector and a significant portion of the Group's profit is realised by these companies. Generally, in most jurisdictions the foreign legal entity may be required to pay income tax if it is a tax resident of such jurisdiction or if its activities constitute a permanent establishment in such a jurisdiction. Management believes that the Group's shipping and holding companies are subject to taxation in their respective countries of incorporation in full compliance with local tax legislation. 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 certain jurisdictions may attempt to subject the Group's earnings to income taxes. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable legislation, official pronouncements and court decisions.

Some of the Defendants referred to in Note 44 have made an application for an inquiry into damages caused by the freezing orders made against them in the course of the London proceedings. They seek \$184.1 million in compensation for the losses allegedly suffered by them because of the immobilisation of these funds. A hearing was scheduled for 16 or 17 November 2011 at which the Court was to determine whether there should be an enquiry into such damages however in the light of permission to appeal having been granted to the Group (see Note 44), that hearing has been postponed until after the appeal has been determined. Management is of the opinion that the application is without merit, the claimed amount is speculative and the likelihood of this claim being successful is remote. The Group will defend its position vigorously. Accordingly, no provision has been made.

Revenue and capital commitments

In 2005 the parent company entered into a long-term non-cancellable operating lease agreement in respect of a preserved office building situated at 3A, Moika River Embankment, Saint Petersburg 191186, Russian Federation. Under the agreement, Sovcomflot had an obligation to renovate the building. The cost of construction work and furnishing is expected to be approximately the equivalent of \$27.9 million of which \$27.7 million (2010 – equivalent of \$21.3 million) had been contracted for by the period end. The construction work and furnishing is expected to be completed by the end of June 2012. As at 31 December 2011 \$20.4 million (2010 – \$11.1 million) of the contracted costs had been paid for. In October 2010, a subsidiary of the Group signed an agreement with the Property Fund of St. Petersburg, a Russian Governmental body, for the acquisition of the office building, including the land the building is built on, for a total purchase consideration of Roubles 200 million (equivalent to \$6.7 million). Ownership of the building was transferred to the Group in January 2011.

The Group is engaged in a contract with the Federal Corporation "Olympstroy" to construct and develop facilities of the port of Sochi, including, amongst others, a yacht marina and related onshore infrastructure, in connection with the preparation for the Olympic sites for the 2014 Winter Olympic Games in Sochi. The total costs of construction and development is expected to be approximately the equivalent of \$66.3 million. An amount of approximately the equivalent of \$10.9 million has been incurred to 31 December 2011 of which \$8.3 million has been capitalised and included in other fixed assets under construction (Note 18).

Details of the Group's capital commitments in respect of newbuilding contracts are disclosed in Note 15 and 41 (d).

Details of the Group's obligations under finance leases are disclosed in Note 35.

44. Contingent Asset

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 that had taken place during 2000 through to 2004. The losses were estimated as being in the region of between \$817.0 million and \$907.0 million.

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 \$769.0 million and \$859.0 million.

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 at 3-month \$ LIBOR plus 2.5% at quarterly rests, and has now received \$56.0 million of which \$37.9 million of principal and \$17.8 million of interest had been recognised in 2010 in other non-operating income and interest income respectively.

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 to enforce that judgment. In addition, in February 2012, a settlement was reached pursuant to which a charge has been granted over a residential property. If the judgment cannot be enforced the charge will allow the Group to recover an estimated \$2.0 million when it is enforced. Consequently an amount of \$2.0 million has been recognised in the income statement for the period ended 31 December 2011 (2010 - \$Nil) and is included in other non-operating income.

On 2 November 2011 the London's Court of Appeal (Civil Division) granted the Group leave to appeal against certain important elements of the previous judgement handed down on 10 December 2010. In particular the Court of Appeal granted the Group leave to appeal on the following issues:

- whether the law applicable to the provision by Mr Nikitin of holidays and a credit card to Mr Skarga whilst he was Director General of OAO Sovcomflot is Russian law as found by Mr Justice Andrew Smith, or as the Group contended, English law such that the payments/benefits concerned would amount to bribes and give rise, subject to succeeding to reversing the judge's finding in relation to dishonesty referred to below, to a claim in respect of the significant profits made by Mr Nikitin under various transactions with the Group;
- in relation to the finding of Mr Justice Andrew Smith that the above provision of holidays and a credit card by Mr Nikitin to Mr Skarga did not establish dishonesty;
- the finding that a payment of \$100,000 by Mr Nikitin (through one of his companies) to the vendor of a property sold to Mrs Skarga, was not a further bribe paid by Mr Nikitin for the benefit of Mr Skarga; and
- the judgement that awarded Intrigue Shipping Inc., one of the Group's subsidiaries, no costs in relation to its successful commission claims.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

44. Contingent Asset (Continued)

It is anticipated that the Claimants' appeal will be heard by the Court of Appeal in London sometime in late 2012 or early 2013.

In addition to granting the Group leave to appeal, the Court of Appeal dismissed an application by Mr Yuri Nikitin for leave to appeal.

In addition, in late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd ("NOUK"). NOUK filed claims in London in December 2006 and joined further defendants. The claims, which relate to a number of charters entered into between 2002 to 2004, are in the region of \$135.0 million plus interest. The trial should take place in May 2012. If the Group is unsuccessful in its claim this may result in a costs liability to the Defendants of in excess of \$7.0 million. Further, the Group has taken steps in various jurisdictions to locate and freeze assets of the Defendants and has put up security to fortify cross undertakings in damages in respect of the frozen assets in the sum of \$4.1 million, \$4.0 million of which was put up as security subsequent to the period end. If unsuccessful in its claims the Group may face liability of up to or in excess of this sum. In early 2010 NOUK reached a settlement with Odin Marine Inc. on terms that are confidential between the parties. The settlement monies had been recognised in other non-operating income.

Related proceedings have also been commenced in Nevis, Guernsey and Jersey. In May 2011 NOUK obtained summary judgement against defendants in the related Nevis proceedings of approximately \$3.0 million plus interest of approximately \$0.7 million. The summary judgment in the related Nevis proceedings has now been enforced and the Group has recovered approximately \$2.8 million which has been recognised in other non-operating income.

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 \$0.6 million plus interest. If unsuccessful, the Group may face a costs liability of \$0.5 million and a liability in respect of the counter security for damages given in respect of assets that have been frozen.

A total amount of \$11.2 million (2010 – \$31.0 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 expenses.

45. Related Party Transactions

Related party transactions comprised:

- (i) Bank balances include \$91.8 million (2010 – \$62.3 million) held with State controlled banks. Interest received on those accounts during the period amounted to \$0.9 million (2010 – \$1.8 million).
- (ii) Included in the time charters entered by subsidiaries of the Company, referred to in Note 43, are two agreements entered into with a State controlled entity with aggregate hires receivable of \$920.1 million (2010 – \$958.8 million). The charters are for 25 years, commenced in February and September 2010. The Group has obtained guarantees from the State controlled shareholders of the charterers in respect of the performance of the obligations of the charterers under the time charter agreements. In March 2010 the Group agreed with the charterers to reduce the time charter hire rate receivable under the agreements for the period from commencement of the charters until 31 December 2011 with a corresponding increase in the charter rate, plus interest for the period to 31 December 2011. Consequently this resulted in recognition of accrued income of \$40.6 million (2010 - \$12.9 million) for the period ended 31 December 2011 (see Note 26).
- (iii) Included in the time charters entered by subsidiaries of the Company, referred to in Note 43, is an agreement entered into with a subsidiary of a State controlled entity with aggregate hire receivable of \$121.1 million (2010 – \$134.0 million). The charter is for 15 years and has commenced in September 2006.
- (iv) Included in the time charters entered by subsidiaries of the Company, referred to in Note 43, are three time charter agreements, attached to vessels acquired during the period, with a subsidiary of a State controlled entity with aggregate hire receivable as at the period end over the remaining firm period of the charters of \$83.1 million. The firm period of charters expire in May 2015, October 2013 and October 2017.
- (v) The time charter agreements entered into by the joint ventures, referred to in Note 43, included two agreements entered into with a subsidiary of a State controlled entity with aggregate hire receivable as at the period end over the remaining firm period of the charters of \$695.0 million (2010 – \$744.0 million). The charters are for 20 years and have commenced in October 2007 and January 2008.
- (vi) The Group sold and leased back two of its vessels to subsidiaries of a State controlled financial institution for an aggregate consideration of \$230.0 million on 7 September and 16 November 2010, respectively. The monthly hire is \$926,652 for each vessel, payable monthly in advance (see Note 35).
- (vii) The Group leases out part of the premises owned by Sovcomflot, located at 7 Dunayevskogo Street, Moscow 121165, Russian Federation, to JSC Rosneftflot (a Group Associate). The current lease term is for eleven months (2010 - eleven months) expiring on 30 November 2012 at lease rentals for the period of Roubles 17.81 million equivalent to \$0.53 million (2010 - Roubles 17.81 million equivalent to \$0.59 million).
- (viii) Included in vessels under construction (Note 15) are four newbuildings (2010 – six) with a total contracted cost of \$268.1 million (2010 – \$395.0 million) placed on order from a State controlled shipyard in 2010. As at 31 December 2011 instalments of \$201.8 million (2010 – \$368.1 million) were outstanding in respect of the shipbuilding agreements.
- (ix) Included in vessels under construction (Note 15) are two newbuildings with a total contracted cost of \$200 million placed on order in 2011 from a shipyard that is a joint venture between a State controlled entity and a third party. As at 31 December 2011 instalments of \$140.0 million were outstanding in respect of the shipbuilding agreements.
- (x) The Group is engaged in a contract with the Federal Corporation "Olympstroy", a State controlled organisation, to construct and develop facilities of the port of Sochi in connection with the preparation for the Olympic sites for the 2014 Winter Olympic Games in Sochi as fully explained in Notes 18 and 43.

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**Notes to the Consolidated Financial Statements – 31 December 2011
(Continued)**

45. Related Party Transactions (Continued)

- (xi) Nine Escort tugs on bareboat charter to JSC Rosnefteflot (a Group associate) for a period of 15 years as explained in Note 22. An amount of \$12.1 million (2010 – 2.6 million) of bareboat hire payments was outstanding as at the period end.
- (xii) In May 2011 the Group signed time charter agreements with a State controlled entity for the chartering out of two LNG carriers currently under construction (Note 15) for a firm period of 15 years, with various extension options attached, with aggregate hire receivable over the firm period of \$806.0 million. The time charter agreement will commence upon delivery of the vessels by the shipyards. Delivery is scheduled for December 2013 and May 2014 respectively.
- (xiii) In September 2011 the Group entered into a time charter agreement with a State controlled entity for the chartering out of seismic vessel Vyacheslav Tikhonov for a period of five years, expiring on 18 August 2016, at a fixed rate of \$20,000 per day plus a variable rate, during the employment of the vessels on 3D seismic surveys, of 60% of the profits arising from the operation of the vessel, taking into account the expenses incurred both by the Group and the charterer and including the fixed rate payable by the charterer for the relevant period.
- (xiv) During the period Group executed a contract of affreightment with a State controlled entity with total freight income received under this contract of \$9.1 million.
- (xv) The rental and subsequent acquisition of the preserved office building situated at 3A, Moika River Embankment, Saint Petersburg 191186, Russian Federation as explained in Note 43 under revenue and capital commitments.
- (xvi) Included in amounts due from charterers are \$8.6 million (2010 – \$2.0 million) of amounts receivable from related parties not included above.

46. Events After the Reporting Period

On 18 January 2012 the Group took delivery from the shipyard an oil product Panamax tanker (LR1), the m/v SCF Progress.

In January 2012, the Group terminated the shipbuilding contracts for two crude oil Aframax tankers placed on order from a State controlled shipyard in 2010, the contracted cost of which was \$126.8 million, and simultaneously entered into new optional agreements with the same yard for the construction of two crude oil Aframax tankers, declarable by 31 December 2012. The Group had not paid any of the contracted costs of the cancelled contracts. The contract price for the optional vessels will be agreed upon the declaration of the options.

In January 2012 the Group amended two of the four contracts for the construction of Panamax Bulk carriers (see Note 15) to LPG carriers at a total contracted cost of \$104.0 million, which is \$24.0 million higher than the contracted costs of the Panamax bulk carriers contracts which were amended. In addition in February 2012 the Group signed agreements for the construction of two LNG carriers at a total contracted cost of \$398.4 million. Both the LPG and LNG carriers are backed with time charter agreements, aggregating 40 years firm period, with various extension options attached. The aggregate hire receivable over the firm period of the charters are \$738.1 million. The LPG carriers are scheduled for delivery in July and September 2013 and the LNG carriers in October 2014 and May 2015.

In February 2012 the Group entered into a joint venture arrangement with a subsidiary of Glencore International AG whereby it acquired through Magenta Inc., a holding company specifically set up for the arrangement, 51% of four vessel owning companies for a total consideration of \$26.3 million. Three of the vessels were delivered to the vessel owning companies in 2011. The last of the vessels was delivered to the shipowning company on 12 March 2012.

The vessels acquired through the joint venture arrangement as the following:

<u>Vessel Name</u>	<u>Vessel Type</u>	<u>DWT</u>
SCF Plymouth	Panamax tanker (LR1)	74,000
SCF Pacifica	Panamax tanker (LR1)	74,000
SCF Pearl	Panamax tanker (LR1)	74,000
SCF Prudencia	Panamax tanker (LR1)	74,000

Subsequent to the year end the Group deposited a total amount of £3.9 million (equivalent to \$6.1 million) with the Court's Funds Office in London as security to cover potential costs in relation to the litigation cases discussed in Note 44.

The oil product Handymax tanker classified as held for sale at the end of the financial reporting period, referred to in Note 28, the m/v "Tambov" was sold in March 2012 and she is estimated to be delivered to her new owners in April 2012.