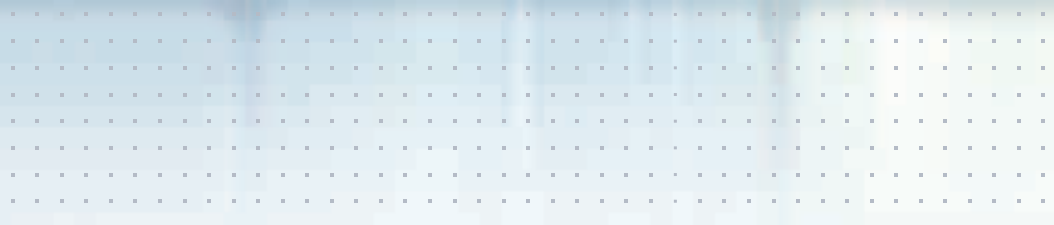


PRIMORSK SHIPPING CORPORATION
ANNUAL REPORT
2005



Nakhodka
2006



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ADDRESS TO THE SHAREHOLDERS





Dear Shareholders,

Considering the performance of Primorsk Shipping Corporation in 2005, I would like to note that the company has successfully achieved the set goals and is confident of its future.

Primorsk Shipping Corporation holds a steady position in the world transportation industry due to its fast response to the market requirements and high-class operation in compliance with all the necessary standards. Considerable financial and economic results attract Russian and foreign partners to the company.

PRISCO's services are in high demand. That can be proved by significant overall results: the Company exceeded the planned volume of cargo shipment by 14.7% transporting liquid cargo throughout the ocean of the world. This enabled PRISCO to maintain and acquire its fleet, as well as to take necessary steps for fulfilling the main projects of the company.

At present, expanding the company's participation in large-scale industrial projects such as transporting oil and gas from shelf deposits is among the prospective lines of PRISCO's development enabling its further growth. In particular, modern ships are being built under a successful fleet modernization program. They are intended for servicing the Sakhalin terminal and those being organized on the Baltic and Russian Arctic seas.

Important investment projects are also connected with broadening the company's activities. They are projects such as building an icebreaking tug "Polar Pevek" in collaboration with Norwegian partners, acquiring PRISCO's fleet with tankers of various classes and missions of 50,000 to 166,000 dwt and setting supply ships into operation. This new class of PRISCO's vessels is intended for servicing oil platforms under the Sakhalin-2 project in the Sea of Okhotsk.

Developing a new segment of the shipping market, namely liquefied natural gas transportation, is also among the above-mentioned investment projects. Primorsk Shipping Corporation won tenders for liquefied natural gas transportation, building and mutual use of a gas carrier as a member of MOL/K Line/PRISCO Consortium. In this connection, the company's goal includes organizing safe and efficient oil and gas shipping along with introducing and developing advanced transportation technologies.



Thus, training highly-qualified specialists in ship and shore service is one of the most important and successful strategic directions of the company's personnel policy. The PRISCO Maritime Training Center provides necessary facilities for this. Potentially, the center can also be used for training other shipping firms' personnel not just the PRISCO's staff.

Improving liquid cargo transportation services as well as meeting the clients' requirements and operating in compliance with Russian and international standards are among the company's core priorities. An integrated system of quality and environmental management approved by DNV is of great importance for reliable and safe transportation.

Currently, Primorsk Shipping Corporation is a successful and dynamically developing company.

The company's vessels continue supplying Russian Far East territories with petroleum products, providing transportation between over-seas ports and delivering outward freight.

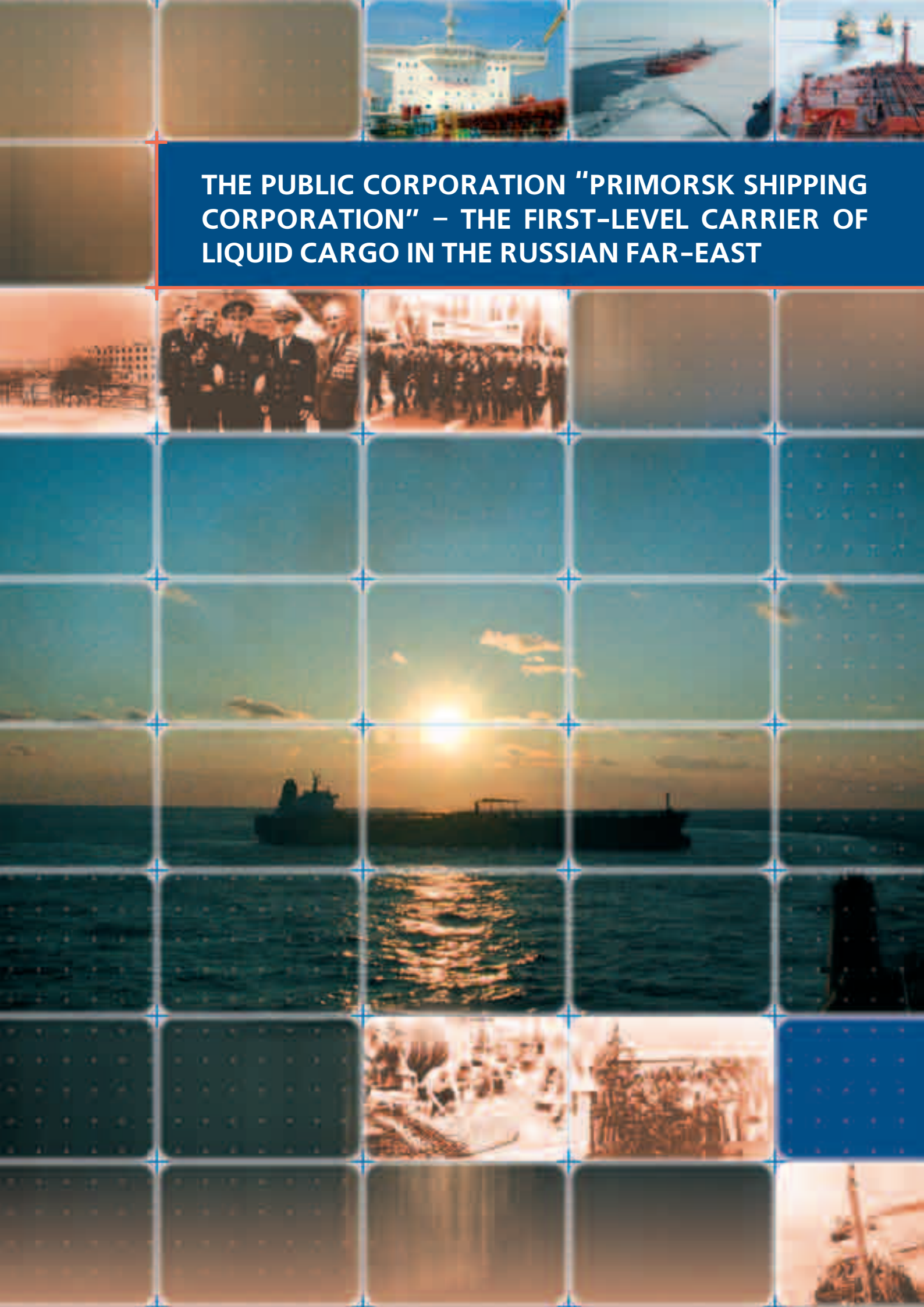
The company's shore facilities are constantly being modernized and reorganized, including those at PRISCO's divisions and subsidiaries.

Various social programs are carried out on a regular basis such as those aimed at industrial safety and health maintenance, personnel training, supporting PRISCO's veterans and sponsoring the company's high-school and charity projects.

PRISCO's activities are aimed at raising its financial stability and competitiveness in a rapidly developing market. Our goal is an advanced industrial company which provide the highest quality transport action services, enjoys its clients' confidence and acts in its shareholders' interest.

Alexander S. Migunov
General Director
The Public Corporation "PRISCO"





THE PUBLIC CORPORATION "PRIMORSK SHIPPING CORPORATION" – THE FIRST-LEVEL CARRIER OF LIQUID CARGO IN THE RUSSIAN FAR-EAST



The Public Corporation "Primorsk Shipping Corporation" is one of the largest tanker owning companies in Russia, transporting liquid cargo all over the world.

The PRISCO Head Office is situated in the town of Nakhodka, Primorsky Region. The company has its representative offices and subsidiaries in Singapore, Moscow, Yuzhno-Sakhalinsk and Vladivostok.

The Primorsk Shipping Corporation was founded upon the Tanker Division of the Far Eastern Shipping Company - the Oil-Tanker Fleet Department, in January 1, 1972 in the port of Nakhodka. Originally, supplying Russian Far-East with oil cargo was the core business of the Company. At present, besides coastal navigation, PRISCO's activities include exporting oil and petroleum products and shipping vegetable oil, adipose, treacle and chemical cargo for foreign charterers.

In September 1992 the company became the first corporate enterprise in the Russian transportation industry.

Currently, PRISCO has 34 tankers in operation with their total deadweight amounting to 1,085,589 tons. The average age of the vessels built in a number of shipyards round the world is 15.6 years.

Ice class ships equipped for operation in freezing seas conditions are a major type of PRISCO's fleet vessels. These are such ships as tanker "Ershov" of 17,000 dwt, ice tankers of "Samotlor" type with hull reinforcement of 17,000 dwt and those of "Partizansk" type of 3000 dwt, tanker "Primorye" of 105,000 dwt, "Sakhalin Island" type tankers of 108,000 dwt and tankers of "Pavel Chernysh" type of 100,000 dwt.

The PRISCO's fleet and Management obtained the Russian Maritime Register of Shipping and Det Norske Veritas accreditation in compliance the requirements of the International Safety Management (ISM) Code and ISO-9001:2000, ISO-1400:1996 standards. Their operation meets all the international safety criteria. The Integrated System of the company's Quality and Environmental Management satisfies the requirements of ISO-9001:2000 and ISO 14001:2004 standards.

Besides shipping services, the PRISCO provides crew training and recruiting for foreign shipping companies, ship's agency service, banking, insurance and hospitality service. The Company's activities also include printing, automobile and medical care services.

The PRISCO's Board of Directors and the Management Board determined the major priorities of the Company's activity as:

- cargo fleet modernization and acquiring;
- expanding the cargo fleet tonnage;
- maintaining and increasing the sea-going personnel employment opportunities;
- improving the personnel's qualifications and equipping the fleet in compliance with international conventions and standards;
- raising the Company's financial stability;
- acting in the shareholders' interest;
- improving PRISCO's management structure.

The Company is successful at accomplishing these tasks. PRISCO has received a number of prestigious national and international awards in recognition of its achievements.

The main Charterers:

- Rosneft-Vostoknefteproduct
- Sakhtransbunker
- DVTK Briz
- Kvadrotreid
- Daxin
- Chukotsnab
- Vostokfrakht

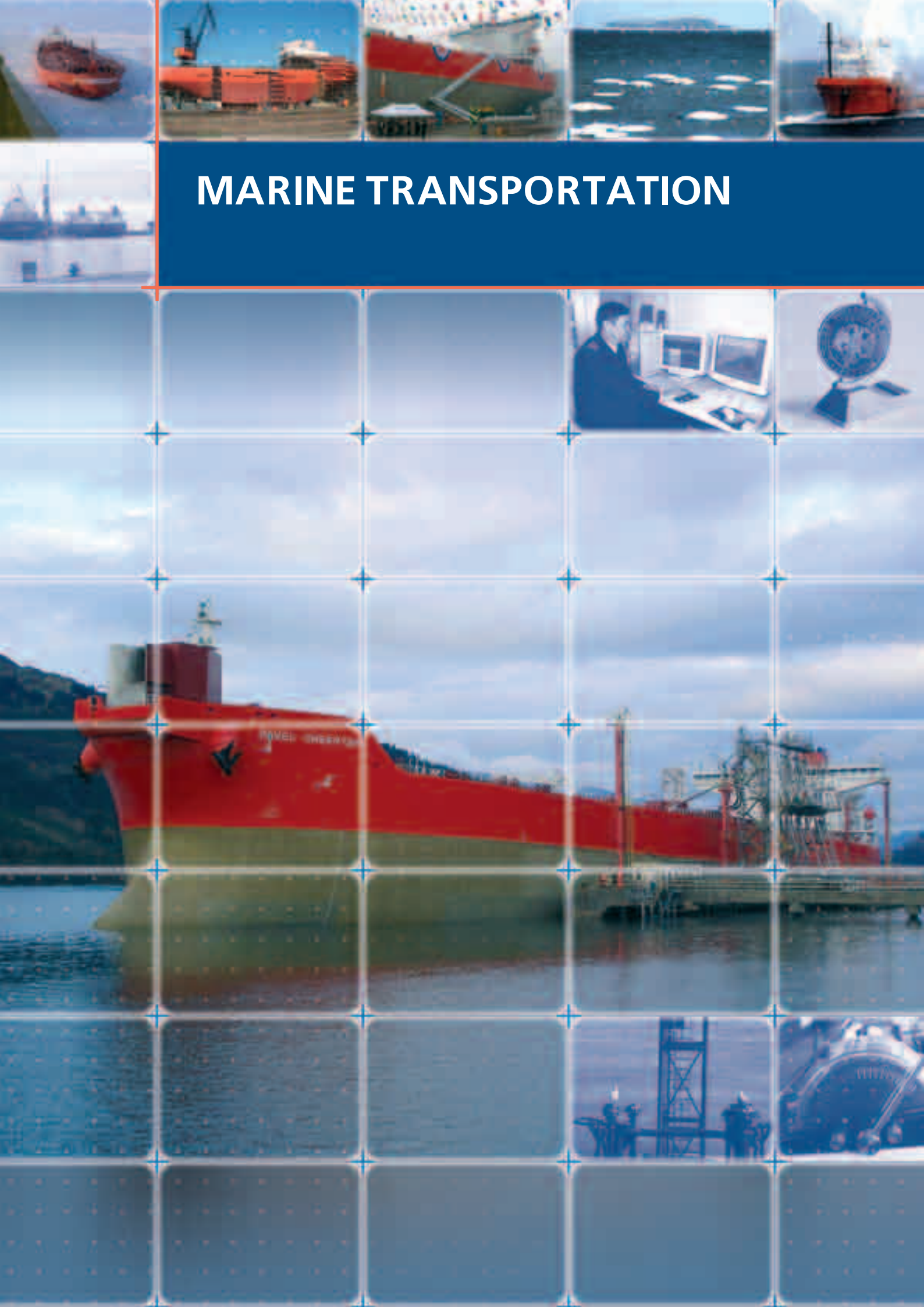
The main competitors:

- within the Far Eastern domestic market: RIMSKO, Vostoktransflot, Starfish;
- at the external market: the world fishing companies.

PRISCO's competitive advantages in the Far East:

- high-quality transportation services;
- highly skilled ship crews;
- good technical state of the vessels;
- expertise in the local markets.

Safety, the highest quality services and environmental protection are the major principles of the Company's development. The primary goal of The Public Corporation "Primorsk Shipping Corporation" is providing its clients with premium quality services.



MARINE TRANSPORTATION



Marine transportation is the Corporation's primary business.

At present PRISCO is a Corporation consisting of several shipping companies that are 100% owned by PRISCO.

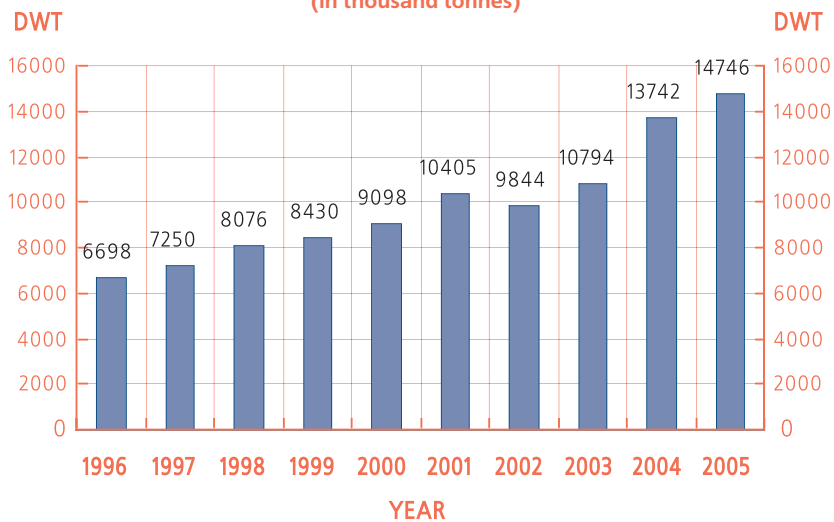
There are 16 tankers at present in the PRISCO Russian domestic fleet and 18 tankers in our internationally registered fleet, all ultimately owned by PRISCO Tanker Limited, a holding company of Primorsk Shipping Corporation. PRISCO management is responsible for all strategic and tactical matters connected with the operation of both fleets. The company is fully privatised with no state ownership, and is quoted in Russian Trading System stock exchange (RTS). The shares of PRISCO are owned by a variety of international and domestic institutions together with some domestic individuals, the senior management controls the majority of the shares.

PRISCO owns, manages and operates a fleet of tankers of different types. Modern vessels of a large capacity trading mostly in international trades and carrying cargoes between foreign ports, whilst the tankers of smaller DWT are used only for domestic and coastal trades. During the company's history its vessels have carried over 245 million tonnes of cargo.

PRISCO traditionally operates its fleet in the following trades:

- 1. **Cabotage** – shipping cargoes between Russian ports
- 2. **Export Trade** – carrying petroleum product and crude oil exports from Russian ports to overseas terminals
- 3. **International cross trade** – moving bulk liquid cargoes between foreign ports

Dynamics of Marine Transportation
(in thousand tonnes)





Volumes of PRISCO cargo shipment in different trades (in thousands of tons)

| Type of trade | 2004 | 2005 | Volumes (%) for 2005 as compared with 2004 |
|----------------------------------|----------------|----------------|--|
| Cabotage | 417,0 | 519,3 | 124,5 |
| Exports transportation | 970,5 | 813,4 | 83,8 |
| International cross trade | 12354,6 | 13413,7 | 108,6 |
| TOTAL | 13742,1 | 14746,4 | 107,3 |

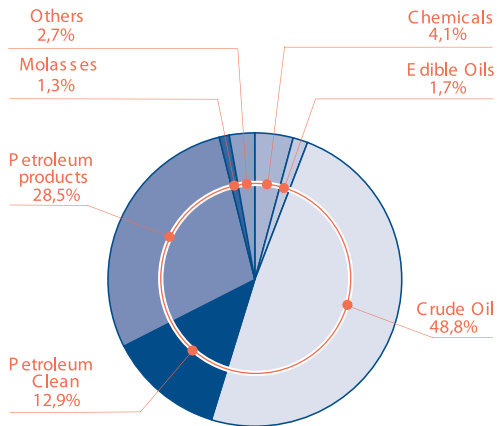
Cabotage

The company was founded with a goal to provide the Far East Russia and Arctic regions with liquid cargoes. Later its' experience in trading in polar conditions became in great demand not only on the Far East shipping routes. Primorsk Shipping Corporation tankers also carries cargoes along the Arctic Waterway and into the Antarctic. When vessels of the Samotlor type, with ice-strengthened hull, were delivered the company received a government order to supply fuel to the Soviet Antarctic polar stations. At present the Company's tankers continue delivering oil products in summer and autumn seasons to the seaports and terminals in the eastern sector of the Arctic.

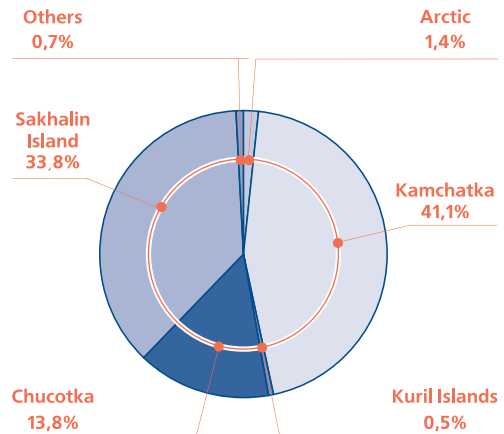
The total cargo volume handled in the coastal trade grew by 24.5% in comparison with the previous year.

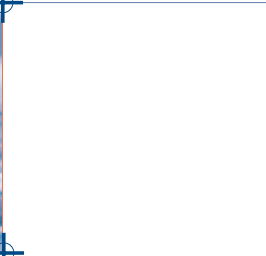
Shipment structure in 2005 according to the types of cargoes

PRISCO TANKER LTD



Structure coastal trade in 2005





Export Trade

In 2005 export operations decreased by 16.2% in comparison with 2004 and totaled 813.4 thousand tonnes. Primorsk Shipping Corporation vessels are mainly engaged in shipping crude oil and petroleum product exports from the Russian Far East ports (Nakhodka, Vladivostok, and Vanino) to overseas terminals.

International Cross Trade

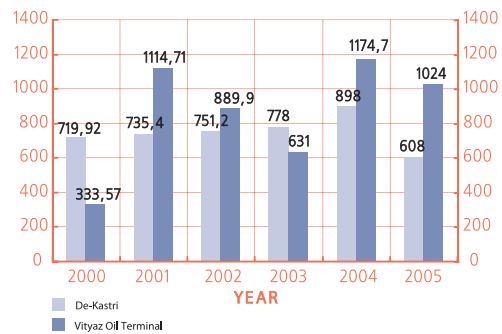
The PRISCO fleet is engaged in the carriage of petroleum products to Southeast Asia, Europe, India, China, Africa, Australia, USA and South America and are employed under long-term charter contracts. The volume of petroleum products shipped in international cross trade in 2005 totalled 13,413.7 thousand tonnes. The volume of cargo carried grew by 8.6% in comparison with the previous year.

Participation in Sakhalin Projects

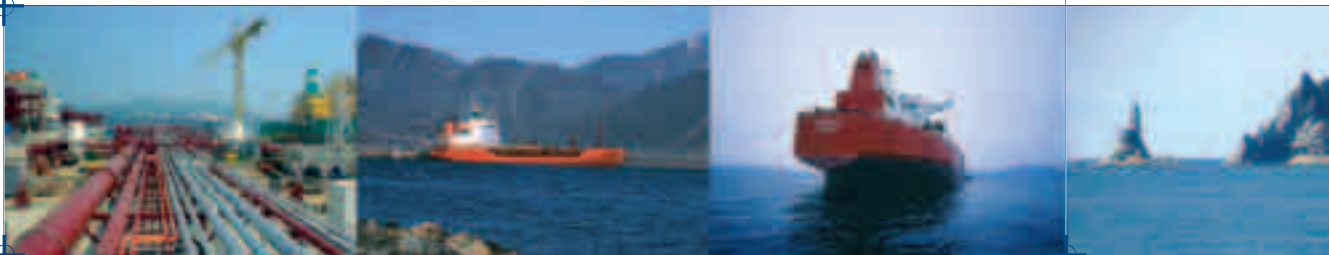
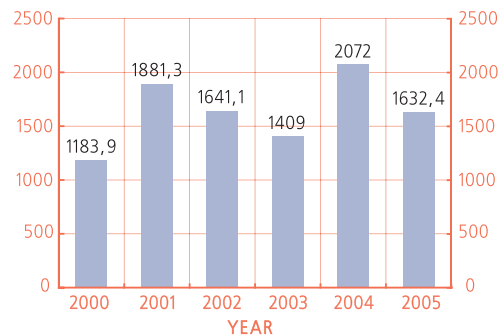
Prior to the development of Sakhalin oil by international oil majors, Prisco had used a variety of its vessels to export oil directly from Sakhalin Island and also from the export terminal at De-Kastri. Prisco's knowledge of the island, its resources and the local ice navigation expertise has formed the basis of the company's objectives from the mid 90's. At that time, Prisco started planning fleet development projects to ensure it had suitable tonnage available for use in the Sakhalin projects as they developed. Since 1995, Prisco vessels from the Samotlor class, the Azija, Auriga and some "M" Class vessels have all exported from Sakhalin Island

PRISCO continues to participate in carrying Sakhalin crude oil. The company vessels move Sakhalin oil from Vityaz Oil Terminal during summer and from the port of De-Kastri during the whole year. As compared with the previous year cargo traffic on the Sakhalin route dropped by 440 thousand tonnes, or 21.2%, totaling 1632,4 thousand tonnes. Primorye moved over 1,024 thousand tons of crude oil from Vityaz Oil Production Marine Terminal. 608 thousand tonnes was exported from the port of De-Kastri which is located in the north of the Khabarovskiy Kray. The share of Sakhalin oil within the total amount of cargoes handled by PRISCO in 2005 comprised 11%.

Oil transportation from De Kastri and from Vityaz Oil Terminal (thousand tons) 2000-2005



Volume of Sakhalin oil transported in 2000-2005 (thousand tons)



PRISCO FLEET

Primorsk Shipping Corporation

| Name | Date of delivery | DWT | Age |
|-----------------|------------------|----------------|-------------|
| Gornopravdinsk | 30/09/76 | 17,770 | 29.3 |
| BAM | 03/01/77 | 17,725 | 29 |
| Eniseisk | 31/05/77 | 17,725 | 28.6 |
| Kamensk-Uralski | 07/07/77 | 17,725 | 28.5 |
| Viluisk | 27/09/77 | 17,625 | 28.3 |
| Igrim | 25/04/78 | 17,625 | 27.7 |
| Kapitan Yershov | 29/12/85 | 17,639 | 20 |
| Partizansk | 27/02/88 | 3,086 | 17.8 |
| Belogorsk | 26/08/88 | 3,086 | 17.3 |
| Svobodny | 03/05/89 | 3,086 | 16.7 |
| Arsenyev | 21/06/89 | 3,086 | 16.5 |
| Guryev | 31/01 | 3,086 | 15.9 |
| Angarsk | 29/03/90 | 3,086 | 15.8 |
| Luchegorsk | 26/06/90 | 3,086 | 15.5 |
| Roschino | 26/09/90 | 3,086 | 15.3 |
| Shkotovo | 12/12/90 | 3,086 | 15.1 |
| TOTAL | | 151,608 | 21.1 |

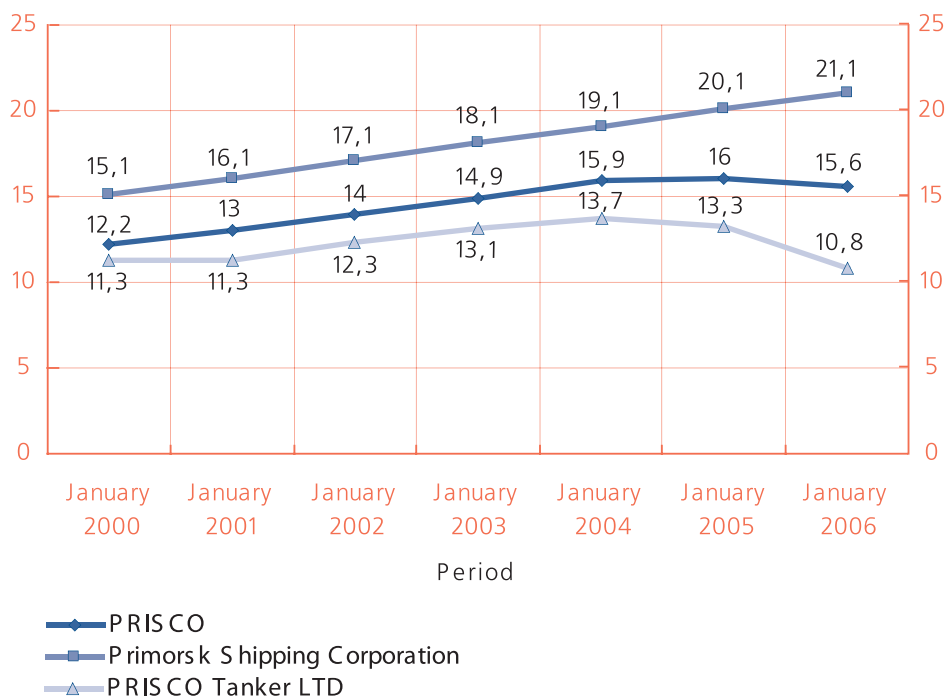
PRISCO TANKER LTD

| Name | Date of delivery | DWT | Age |
|---------------------------|---------------------|------------------|-------------|
| Usinsk | 04/06/76 | 17,725 | 29.6 |
| Nadym | 06/05/76 | 17,725 | 29.7 |
| Vanino | 14/06/85 | 6,237 | 20.6 |
| Nagaev | 11/06/86 | 6,237 | 19.6 |
| Kapitan Korotaev | 15/10/88 | 17,400 | 17.2 |
| Akademik Semenov | 28/10/89 | 17,485 | 16.2 |
| Iver Libra | 14/07/94 | 28,840 | 10.5 |
| Spica | 03/01/95 | 32,396 | 11 |
| Auriga | 15/04/96 | 28,280 | 9.7 |
| Moskalvo | 11/09/98 | 46,269 | 7.3 |
| Marchekan | 02/10/98 | 46,282 | 7.3 |
| Monneron | 01/11/98 | 46,305 | 7.2 |
| Primorye | 20/07/00 | 105,000 | 5.5 |
| Sakhalin Island | 11/05/04 | 108,000 | 1.1 |
| Governor Farkhutdinov | 21/09/04 | 108,000 | 1.3 |
| Pavel Chernysh | 17/10/05 | 100,600 | 0.2 |
| Captain Kostichev | 17/10/05 | 100,600 | 0.2 |
| Victor Titov | 15/11/05 | 100,600 | 0.1 |
| TOTAL | | 933,981 | 10.8 |
| PRISCO TOTAL FLEET | in operation | 1,085,589 | 15.6 |

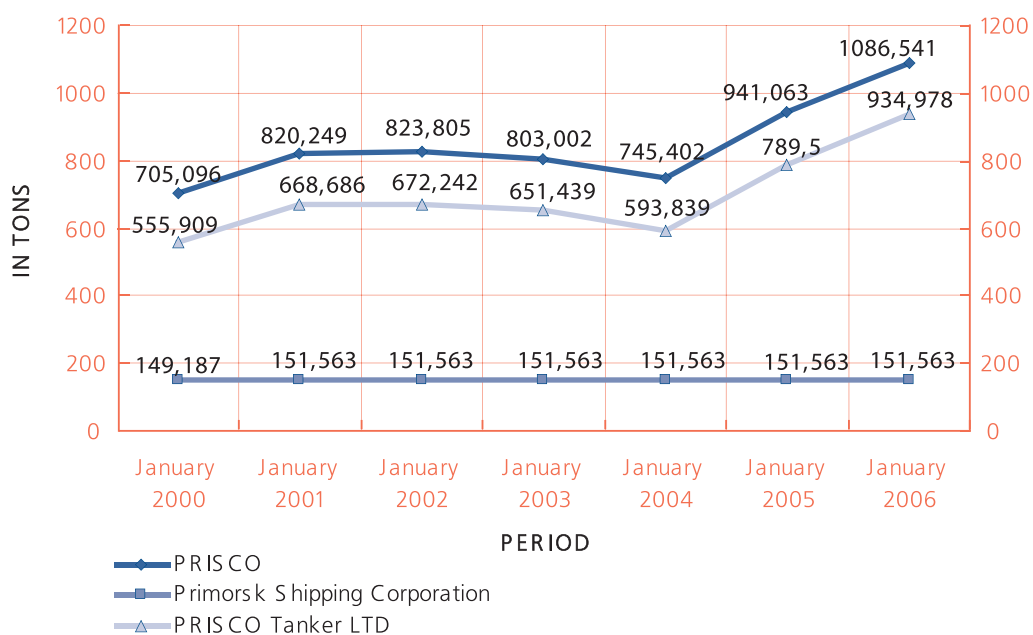
As of December 31, 2005, PRISCO operated a fleet 34 tankers totaling 1,085,589 DWT. The Corporation is continuing to selectively dispose of uneconomic and older vessels. Thus, in September, 2005, the tanker Samotlor was disposed for scrap. Tankers Azijia, Daugava, Dalnerechensk, Gemini-1, Amursk, Ussuriysk, Victor Dubrovsky, Capella were also sold during this year.

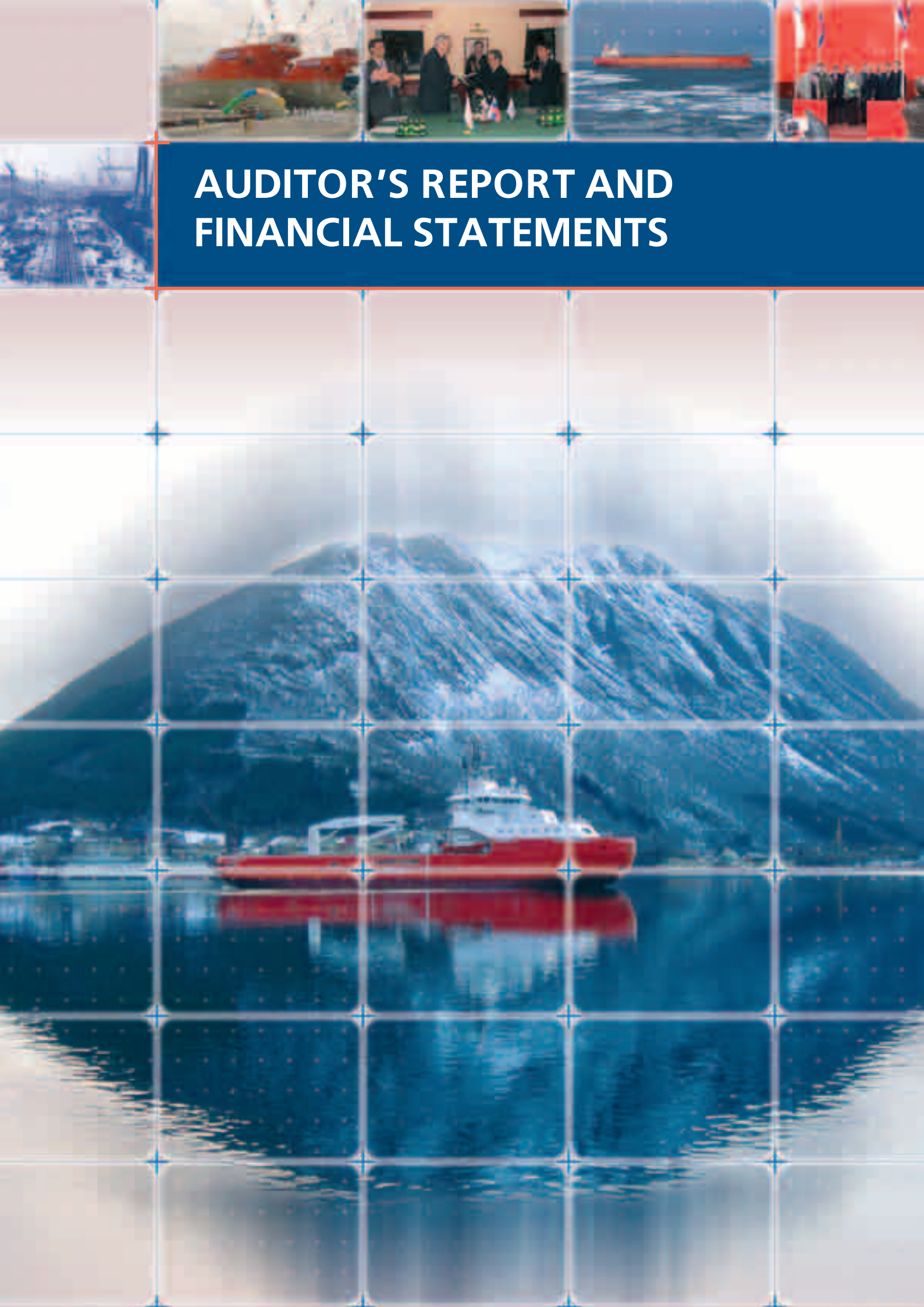
As of December 31, 2005, the average age of PRISCO fleet was 15.6 years.

Average age of PRISCO fleet



PRISCO fleet deadweight





AUDITOR'S REPORT AND FINANCIAL STATEMENTS

Statement of Management Responsibilities

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

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

Signed on behalf of
the Management Board
Tatiana Shkurenok,
Finance Director



20 June 2006

Alexander Migunov,
General Director



20 June 2006

Report of the Auditors to the Members of Primorsk Shipping Corporation A/O

We have audited the accompanying balance sheet of Primorsk Shipping Corporation A/O and its subsidiaries as of 31 December 2005 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



St. Paul's House,
LIMITED
London, EC4M 7BP



MOORE STEPHENS CIS

20 June 2006



Primorsk Shipping Corporation A/O and its subsidiaries
Consolidated Balance Sheet – 31 December 2005
 (Expressed in U.S. \$' 000s)

| | 2005 | 2004 |
|--|-----------------|----------------|
| Non-Current Assets | | |
| Fleet | 659,540 | 483,120 |
| Other fixed assets | 21,595 | 14,293 |
| Assets under construction | 120,448 | 98,309 |
| Deferred dry-docking expenses | 19,741 | 22,032 |
| Investments | 4,118 | 7,916 |
| Investment property | - | 6,900 |
| Goodwill | - | 2,071 |
| Finance lease receivable | - | 63 |
| Derivative financial instruments | - | 3,011 |
| | 825,442 | 637,715 |
| Assets held for sale | 35,644 | - |
| Current Assets | | |
| Property rights held for sale | 3,164 | 8,693 |
| Financial assets | 452 | 1,581 |
| Inventories | 4,120 | 3,555 |
| Accounts receivable | 17,748 | 16,153 |
| Loans and advances to customers | 16,602 | - |
| Finance lease receivable | 63 | 541 |
| Derivative financial instruments | 671 | 577 |
| Trading securities | 1,466 | - |
| Due from banks | 586 | - |
| Bank and cash balances | 106,066 | 34,744 |
| | 150,938 | 65,844 |
| Less: Current Liabilities | | |
| Accounts payable | 96,097 | 44,249 |
| Net Current Assets | 54,841 | 21,595 |
| Deferred Taxation | (11,932) | (7,548) |
| | 903,995 | 651,762 |
| Financed by | | |
| Share capital | 132,412 | 132,412 |
| Share premium account | 7,309 | 7,309 |
| Retained earnings | 193,876 | 125,276 |
| Revaluation reserve | 238,135 | 120,514 |
| Other reserves | 3,950 | 1,338 |
| | 575,682 | 386,849 |
| Minority interest | 376 | - |
| Long term loans and other obligations | 327,937 | 264,913 |
| | 903,995 | 651,762 |



Primorsk Shipping Corporation A/O and its subsidiaries
Consolidated Income Statement for the year ended 31 December 2005
 (Expressed in U.S. \$' 000s)

| | 2005 | 2004 |
|---|----------|----------|
| Income | | |
| Hire and freight income | 175,442 | 149,202 |
| Voyage and running costs | (87,616) | (83,411) |
| Profit on vessels' trading | 87,826 | 65,791 |
| Profit on ancillary operations | 1,640 | 157 |
| Fair value gain on investment property | 600 | - |
| Investment and other income, net | 6,150 | 4,599 |
| | 96,216 | 70,547 |
| Expenses | | |
| Depreciation | | |
| Fleet | 23,466 | 18,584 |
| Other fixed assets | 1,423 | 1,360 |
| Administrative expenses | 14,424 | 10,214 |
| Finance charges | 18,010 | 19,550 |
| Release of provision for bad and doubtful debts | (603) | - |
| Exchange differences | 138 | 330 |
| | 56,858 | 50,038 |
| Profit before Provision for Diminution and Disposals of Fixed Assets | 39,358 | 20,509 |
| Provision for diminution: | | |
| Investments | (165) | (1,515) |
| Goodwill | (4,783) | - |
| Fleet | (490) | - |
| Gain on disposal of fixed assets | 9,816 | 1,047 |
| Loss on disposal of investment | (96) | - |
| Profit before taxation | 43,640 | 20,041 |
| Taxation | (2,259) | 402 |
| Profit for the year | 41,381 | 20,443 |
| Earnings per share (cps) | 187.0 | 92.4 |



CORPORATE MANAGEMENT



Corporate management

The Public Corporation "Primorsk Shipping Corporation" was set up under the Decree of the President of the Russian Federation # 721 "On Managerial Procedure of Transforming Public Enterprises into Joint-Stock Companies" dated July 1, 1992 and was registered with Nakhodka Administration on 24 September 1992 (Registration Certificate # 1223).

The company is a profit organization and functions in compliance with the Company Rules and the Russian Federation Law.

Legal and natural persons having paid up shares, accepting the Company's Rules and listed in the Company's Shareholder Register can become the Company's shareholders.

The Company can establish branch and representative offices, subsidiary and associated companies with rights of legal persons within the Russian Federation in compliance with the Russian Federation Law and outside the Russian Federation meeting foreign law requirements.

Shareholders Meeting





Alexander S. Migunov,
General Director of the Public
Corporation "PRISCO"

Andrey E. Sychev,
Deputy Director – Director of the
Fleet Department of the Public
Corporation "PRISCO"

Konstantin V. Globenko,
Director of the Fleet
Technical Department

Board of Directors

Board of Directors

Chairman of Board of Directors

Alexander D. Kirillitchev

Members of Board of Directors:

Dmitry A. Golomovsky, Chief Financial Officer of "PRISCO (Singapore) Pte. Ltd."

Yury A. Kolesnichenko, General Director of the Public Corporation "Nakhodka Torgmortrans-service"

Viktor V. Malykhin, the Honored Officer of the Public Corporation "PRISCO", pensioner

Alexander S. Migunov, General Director of the Public Corporation "PRISCO"

Andrey E. Sychev, Deputy Director – Director of the Fleet Department of the Public Corporation "PRISCO"

Yelena A. Sycheva, Director of Nakhodka Branch of "PRISCO (Singapore) Pte. Ltd."

General Director

General Director

In 2005 Alexander S. Migunov was appointed a General Director of the Public Corporation "Primorsk Shipping Corporation" by the Board of Directors.





Gennady M. Ladchenko,
Director of the
Administrative
Department



Tatiana P. Shkurenok,
Director of the
Finance and Economic
Department



Alexander P. Bulatov,
Director of the
Safety and Quality
Department



Alexander Yu.
Zaporozhsky,
Director of the Human
Resources Department

Management Board

Management Board

Alexander S. Migunov, General Director – Chairman of the Management Board

Gennady M. Ladchenko, Director of the Administrative Department

Konstantin V. Globenko, Director of the Fleet Technical Department

Tatiana P. Shkurenok, Director of the Finance and Economic Department

Alexander P. Bulatov, Director of the Safety and Quality Department

Alexander Yu. Zaporozhsky, Director of the Human Resources Department

Auditing Commission

Auditing Commission

Inga E. Repina, Chief Accountant of the Insurance Joint-Stock Company "Zashchita-Nakhodka" - Chairman of the Commission

Valentina I. Bezobrazova, Deputy Director of the Finance Department of the Public Corporation "Primorsk Shipping Corporation"

Tatiana V. Glubokova, Lawyer of the Nakhodka Branch of Commercial Bank "PRISCO Capital Bank", Closed Joint-Stock Company

Maria V. Sycheva, Chief Accountant of the Nakhodka Branch of "PRISCO Capital Bank", Closed Joint-Stock Company

Antonina V. Shitko, Chief Accountant of the Public Corporation "Nakhodka Torgmortrans-service"





SHARE CAPITAL

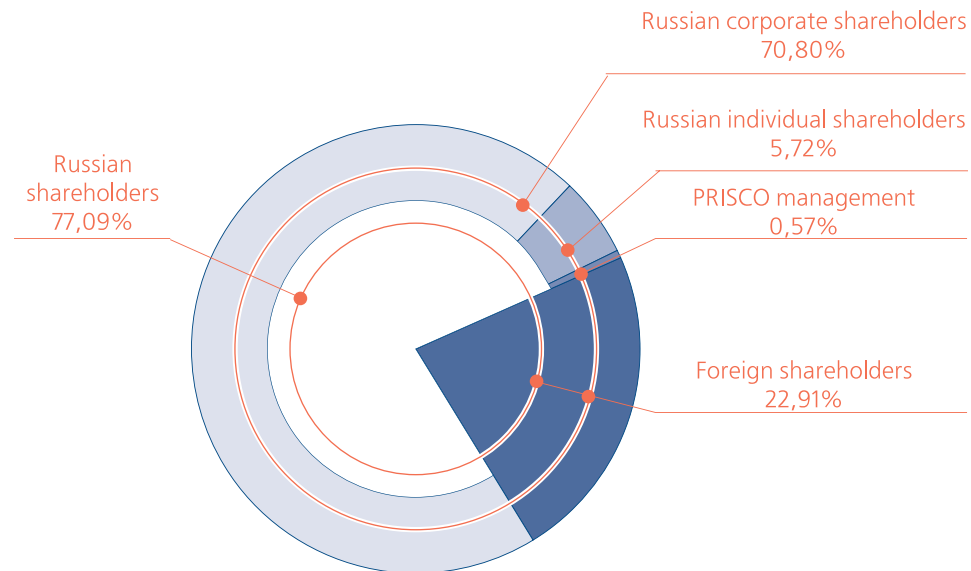




Share Capital issues and movements

In 2005, PRISCO issued capital amounts to \$ 132,412,000 and is divided into 22,122,000 shares.

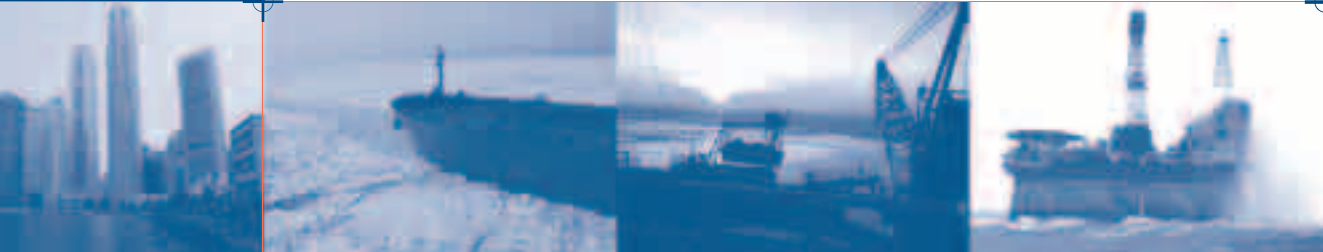
Shareholders structure



Registrar

The records of PRISCO shares are kept by the JSC Siberian Registrar. This Company is entrusted to provide a service to the Company's shareholders on all matters related to the registration of share ownership, provide all relevant certificates when requested, pay out dividends to individual shareholders and to introduce amendments into shareholder's files.

The Register provides information about the Corporation to all parties concerned. PRISCO concluded information exchange contracts with the Russian Trading System stock exchange (RTS) and Moscow Interbank Currency Exchange (MICEX) that are tenders.





CORPORATE EVENTS

Fleet Building

Three aframax type tankers "Pavel Chernysh", "Kapitan Kostichev", and "Viktor Titov" 100,000 dwt each have been set in operation at the Hyundai Heavy Industries Shipyard, the Republic of Korea. Large tonnage vessels will be used for oil transportation under the Sakhalin-1 project in accordance with the "Exxon Neftegaz, Ltd" tender won by PRISCO.

Special vessels intended for operation under Sakhalin shelf oil and gas projects have been built for a year at the shipyards of the Shipbuilding Holding Company "Aker Yards Group" in Romania and Norway.

An icebreaking tug "Polar Pevek" was chartered under a long-term contract among the Primorsk Shipping Corporation, "Rieber Shipping AC" and "Exxon Neftegaz Co., Ltd", the operator of the Sakhalin-1 project and will be put into operation in 2006.

Three ice-breaking supply ships being built by the Joint Enterprise "PRISCO Swire Offshore" are to be used for servicing drilling platforms of the Sakhalin-2 project in the Sea of Okhotsk. The beginning of their operation is scheduled for 2006.

A new contract for building two 1C ice class aframax tankers in accordance with the DNV classification 104,000 dwt each has been concluded in Moscow. The vessels will be constructed at the Hyundai Heavy Industries Shipyard in Ulsan, the Republic of Korea and will be set into operation in 2008.

Another contract for building two more aframax type tankers 104,000 dwt each was signed in London. The tankers will also be built in compliance with the DNV 1C ice class requirements at the Hyundai Heavy Industries Shipyard. Thus, in 2008 PRISCO will operate 10 tankers of 100,000 dwt each, and the total deadweight of the Company's fleet will exceed 1,660,000 tons.

A great preparatory work at signing a contract for building petrochemical tankers has been a success. According to the terms of the contract concluded between the PRISCO Corporation and a shipbuilding company "STX Shipbuilding", South Korea, the PRISCO's fleet will get five 1C ice class tankers 52,000 dwt each. The new vessels will be used for oil, petroleum products and chemical cargo transportation in the Far East and between European ports.

Improving Safety System

An internal check of Quality Management System (QMS) and Environmental Management System has been conducted at all the PRISCO's divisions. On considering the check results a system of improvement and preventive measures was worked out and put into practice. "Principle Regulations", QMS and Environmental Management System procedures were also updated.



Personnel Training

As a result of the Swire Pacific Offshore Ltd. and PRISCO's agreement on crews training PRISCO's seamen have had shipboard training at the partner company's supply ships in preparation for their future service at three supply ships being built by the Joint Enterprise "PRISCO Swire Offshore".

PRISCO managers and representatives of Japanese companies, members of the MOL/K Line/PRISCO Consortium, created a specialized plan for gas carriers personnel training based on the facilities of PRISCO Maritime Training Center - one of the best training centers in Russia.

In the framework of the mutual project the first course aimed at LNG tanker junior officers training was worked out on the basis of the Russian Federation Standards and materials provided by Mitsui OSK Lines Company and then conducted at PRISCO Maritime Training Center.

The company's seamen began their shipboard training at Japanese gas carriers preparing for their future service at the vessel of the same type that will be built by PRISCO in collaboration with Japanese companies Mitsui O.S.K. Lines, Ltd (MOL), Kawasaki Kisen Kaisha, Ltd (K Line) belonging to the MOL/K Line/PRISCO Consortium. In 2004 the Consortium won the tender of the "Sakhalin Energy" Company for liquefied natural gas transportation under Sakhalin-2 project. The gas carrier will be built at the Mitsui Engineering and Shipbuilding Shipyard. The beginning of its operation is scheduled for 2008.

Engine Room System Management Course and pre-voyage course on Emergency Procedures for Marine Engineers are organized at PRISCO Maritime Training Center. The courses are taught with the use

of a brand-new model of TRANSAS "ERS-4000" simulator.

On modernizing the navigational simulator and equipping it with an ice module the Training Center's specialists worked out and conducted the first simulator training course in ice-condition navigation. Specialists of the companies participating in the Sakhalin-1 project and navigators of PRISCO's tankers, UNICOM Company and FESCO's ice-breakers improved their team work with the help of the simulator.

For a year senior students of specialized classes at PRISCO-sponsored secondary schools #9 and #23 have had an introduction course in seamanship followed by familiarization training at the company's vessels.

Cadets of the Nevelskoy Maritime State University have also had shipboard training at the company's tankers.

PRISCO's Social Programs

Being supported by the company, PRISCO-sponsored secondary school #9 has become a finalist of National Education Technologies Contest "The Best Schools in Russia". The school was granted a certificate "For a Successful Social Collaboration" having submitted its project on a trade-oriented education for specialized high-school classes.

Specialized marine classes at schools #9 and #23 continued their activity enabling teenagers to make a right choice of their future profession.





The company's Medical Center purchased a mammograph expanding the range of services provided to the PRISCO's staff and the town's citizens.

The PRISCO's Rent Hotel Complex has been reconstructed for a year, its rooms and restaurant have been renovated. The recreation centre has also been overhauled. Modern design and new equipment of the Hotel Complex now attract larger quantity of customers.

The company's veterans were supported with the help of a specially organized Charity and Health Fund. More than 500 PRISCO's pensioners received a regular monthly welfare of 700 to 1200 rubles depending on their period of service for the company. Personal material assistance was also rendered to the World War II veterans for the 60th anniversary of Victory Day.

PRISCO continued rendering charitable aid to child institutions and medical establishments. A number of Nakhodka's social, sports and religious organizations received the company's financial support.

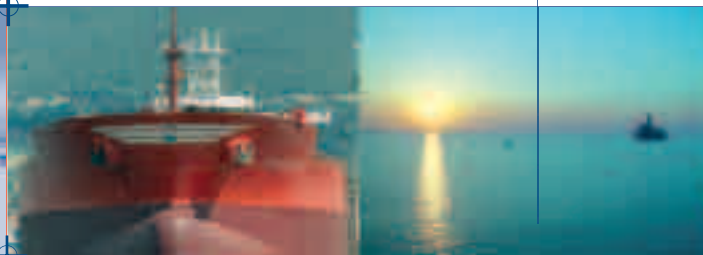
The Company's Elite

Many of the company's employees received government awards in recognition of their contribution to developing the National Transportation Industry. A.D.Kirillitchev, the chairman of the PRISCO's Board of Directors, E.A.Moskalyov, safety manager of "PRISCO (Singapore) Pte. Ltd." and V.I.Sytov, the chief marine engineer, were awarded the Corporation's Decoration "PRISCO's Honored Officer".

The Company's Achievements

The PRISCO's vessels have completed the 34th regular Arctic navigation. Four reinforced ice tankers delivered 70,000 tons of petroleum products and more than 20,000 tons of other cargos to the Northern ports of the Russian Far East during summer months. Also, fuel oil was shipped to nineteen destinations, including the town of Anadyr and such settlements as Beringovsky, Konegino, Sireniki, Novochaplino, Ryveem, Uelen, Mys Shmidta.

The company's Aframax tanker "Primorye" was used for transporting Sakhalin oil from oil-producing terminal "Vityaz". This was PRISCO's seventh season of transporting hydrocarbon material mined by Sakhalin Energy Company, operator of the Sakhalin-1 project at Piltun-Astokhek deposit.



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