

TSAKOS ENERGY NAVIGATION LTD

Form 20-F

April 30, 2009

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 20-F**

“ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008**

OR

“ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

“ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report**

For the transition period from            to

Commission file number 001-31236

# **TSAKOS ENERGY NAVIGATION LIMITED**

(Exact name of Registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's name into English)

**Bermuda**

(Jurisdiction of incorporation or organization)

**367 Syngrou Avenue**

**175 64 P. Faliro**

**Athens, Greece**

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(Name, Address, Telephone Number, E-mail and Facsimile Number of Company Contact Person)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

Title of each class	Name of each exchange on which registered
Common Shares, par value \$1.00 per share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

As of December 31, 2008, there were 37,144,692 shares of the registrant's Common Shares outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the  Other   
International Accounting Standards

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No



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**FORWARD-LOOKING INFORMATION**

This Annual Report on Form 20-F contains forward-looking statements based on beliefs of our management. Any statements contained in this Annual Report on Form 20-F that are not historical facts are forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events, including:

general economic and business conditions;

global and regional political conditions;

acts of terrorism and other hostilities;

availability of crude oil and petroleum products;

demand for crude oil and petroleum products and substitutes;

actions taken by OPEC and major oil producers and refiners;

competition in the marine transportation industry;

developments in international trade;

international trade sanctions;

changes in seaborne and other transportation patterns;

our ability to find new charters for our vessels at attractive rates;

capital expenditures;

meeting our requirements with customers;

tanker and product carrier supply and demand;

regulations;

interest rate movements; and

foreign exchange

The words anticipate, believe, estimate, expect, forecast, intend, may, plan, project, predict, should and will and similar relate to us are intended to identify such forward-looking statements. Such statements reflect our current views and assumptions and all forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. The factors that could affect our future financial results are discussed more fully under Item 3. Key Information Risk Factors as well as elsewhere in this Annual Report on Form 20-F and in our other filings with the U.S. Securities and Exchange Commission ( SEC ). We caution readers of this Annual Report not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or revise any forward-looking statements.

## PART I

Tsakos Energy Navigation Limited is a Bermuda company that is referred to in this Annual Report on Form 20-F, together with its subsidiaries, as Tsakos Energy Navigation, the Company, we, us, or our. This report should be read in conjunction with our consolidated financial statements and the accompanying notes thereto, which are included in Item 18 to this report.

### **Item 1. Identity of Directors, Senior Management and Advisers**

Not Applicable.

### **Item 2. Offer Statistics and Expected Timetable**

Not Applicable.

**Table of Contents****Item 3. Key Information  
Selected Consolidated Financial Data and Other Data**

The following table presents selected consolidated financial and other data of Tsakos Energy Navigation Limited for each of the five years in the five-year period ended December 31, 2008. The table should be read together with Item 5. Operating and Financial Review and Prospects. The selected consolidated financial data of Tsakos Energy Navigation Limited is a summary of, is derived from and is qualified by reference to, our consolidated financial statements and notes thereto which have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), and have been audited for the years ended December 31, 2004, 2005, 2006, 2007 and 2008 by Ernst & Young (Hellas) Certified Auditors Accountants S.A. (Ernst & Young), an independent registered public accounting firm.

Per share data has been adjusted to give effect to our two for one share split which became effective on November 14, 2007.

Our audited consolidated statements of income, stockholders' equity and cash flows for the years ended December 31, 2006, 2007 and 2008, and the consolidated balance sheets at December 31, 2007 and 2008, together with the notes thereto, are included in Item 18. Financial Statements and should be read in their entirety.

**Selected Consolidated Financial Data and Other Data**

(Dollars in thousands, except for share and per share amounts and fleet data)

	2004	2005	2006	2007	2008
<b>Income Statement Data</b>					
Voyage revenues	\$ 318,278	\$ 295,623	\$ 427,654	\$ 500,617	\$ 623,040
<b>Expenses</b>					
Commissions	13,065	11,604	15,441	17,976	22,997
Voyage expenses	42,109	35,970	69,065	72,075	83,065
Charter hire expense	24,341	24,317	24,461	15,330	13,487
Vessel operating expenses (1)	53,900	52,945	76,095	108,356	143,757
Depreciation	35,377	35,697	59,058	81,567	85,462
Amortization of deferred dry-docking costs	8,753	6,583	4,857	3,217	5,281
Provision for doubtful receivables	933	40			
Management fees	5,328	5,460	7,103	9,763	12,015
General and administrative expenses	3,099	3,631	3,510	4,382	4,626
Management incentive award	2,500	2,500	3,500	4,000	4,750
Stock compensation expense			216	5,670	3,046
Foreign currency losses (gains)	185	(181)	279	691	915
Amortization of deferred gain on sale of vessels	(3,167)	(3,168)	(3,168)	(3,168)	(634)
Gain on sale of vessels	(13,608)	(34,540)	(38,009)	(68,944)	(34,565)
Operating income	145,463	154,765	205,246	249,702	278,838
<b>Other expenses (income):</b>					
Gain on sale of non-operating vessels	(7,757)	(10,765)			
Gain on sale of shares in subsidiary			(25,323)		
Interest and finance costs, net	10,135	11,247	42,486	77,382	82,897
Interest and investment income	(761)	(7,360)	(7,164)	(13,316)	(8,406)
Other, net	556	(112)	(1,159)	(924)	350
Total other expenses (income), net	2,173	(6,990)	8,840	63,142	74,841
Minority Interest			(2)	(3,389)	(1,066)
<b>Net income</b>	<b>\$ 143,290</b>	<b>\$ 161,755</b>	<b>\$ 196,404</b>	<b>\$ 183,171</b>	<b>\$ 202,931</b>
<b>Per Share Data</b>					
Earnings per share, basic	\$ 3.77	\$ 4.09	\$ 5.15	\$ 4.81	\$ 5.40
Earnings per share, diluted	\$ 3.76	\$ 4.09	\$ 5.15	\$ 4.79	\$ 5.33
Weighted average number of shares, basic	38,069,454	39,544,540	38,127,692	38,075,859	37,552,848
Weighted average number of shares, diluted	38,161,950	39,573,692	38,141,052	38,234,079	38,047,134



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Dividends per common share, paid	\$	0.60	\$	0.975	\$	1.175	\$	1.575	\$	1.80
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**Cash Flow Data**

Net cash provided by operating activities	153,606	146,903	214,998	190,611	274,141
Net cash used in investing activities	(92,663)	(108,969)	(829,326)	(375,641)	(164,637)

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	2004	2005	2006	2007	2008
Net cash provided by (used in) financing activities	(30,834)	(9,087)	643,126	191,910	21,218
<b>Balance Sheet Data</b>					
Cash and cash equivalents	\$ 116,922	\$ 145,769	\$ 174,567	\$ 181,447	\$ 312,169
Cash, restricted	1,453	271	4,347	6,889	7,581
Investments	10,000	32,121	14,045	1,000	1,000
Advances for vessels under construction	121,260	150,428	261,242	169,739	53,715
Vessels, net book value	636,274	711,362	1,458,647	1,900,183	2,155,489
Total assets	938,969	1,089,174	1,969,875	2,362,776	2,602,317
Long-term debt, including current portion	365,164	433,519	1,133,661	1,389,943	1,513,629
Total stockholders' equity	519,521	607,186	755,273	854,540	910,658
<b>Fleet Data</b>					
Average number of vessels (2)	27.3	26.1	33.8	41.7	44.1
Number of vessels (at end of period) (2)	26.0	25.0	37.0	43.0	46.0
Average age of fleet (in years) (3)	7.5	6.3	5.9	5.6	6.1
Earnings capacity days (4)	9,988	9,527	12,335	15,213	16,143
Off-hire days (5)	241	335	322	523	431
Net earnings days (6)	9,747	9,192	12,013	14,690	15,712
Percentage utilization (7)	97.6%	96.5%	97.4%	96.6%	97.3%
Average TCE per vessel per day (8)	\$ 28,709	\$ 28,645	\$ 30,154	\$ 29,421	\$ 34,600
Vessel operating expenses per ship per day (9)	\$ 6,286	\$ 6,534	\$ 6,979	\$ 7,669	\$ 9,450
Vessel overhead burden per ship per day (10)	\$ 1,094	\$ 1,217	\$ 1,162	\$ 1,565	\$ 1,514

- (1) Vessel operating expenses are costs that vessel owners typically bear, including crew wages and expenses, vessel supplies and spares, insurance, tonnage tax, routine repairs and maintenance, and other direct operating costs.
- (2) Includes chartered vessels.
- (3) The average age of our fleet is the age of each vessel in each year from its delivery from the builder, weighted by the vessel's deadweight tonnage (dwt) in proportion to the total dwt of the fleet for each respective year.
- (4) Earnings capacity days are the total number of days in a given period that we own or control vessels.
- (5) Off-hire days are days related to repairs, dry-dockings and special surveys, vessel upgrades and initial positioning after delivery of new vessels.
- (6) Net earnings days are the total number of days in any given period that we own vessels less the total number of off-hire days for that period.
- (7) Percentage utilization represents the percentage of earnings capacity days that the vessels were actually employed, i.e., earnings capacity days less off-hire days.
- (8) The shipping industry uses time charter equivalent, or TCE, to calculate revenues per vessel in dollars per day for vessels on voyage charters. The industry does this because it does not commonly express charter rates for vessels on voyage charters in dollars per day. TCE allows vessel operators to compare the revenues of vessels that are on voyage charters with those on time charters. TCE is a non-GAAP measure. For vessels on voyage charters, we calculate TCE by taking revenues earned on the voyage and deducting the voyage costs and dividing by the actual number of voyage days. For vessels on bareboat charter, for which we do not incur either voyage or operation costs, we calculate TCE by taking revenues earned on the charter and adding a representative amount for vessel operating expenses. TCE differs from average daily revenue earned in that TCE is based on revenues before commissions and does not take into account off-hire days.

Derivation of TCE per day (amounts in thousands except for days and per day amounts):

	2004	2005	2006	2007	2008
Voyage revenues	\$ 318,278	\$ 295,623	\$ 427,654	\$ 500,617	\$ 623,040
Less: Voyage expenses	-42,109	-35,970	-69,065	-72,075	-83,065
Add: Representative operating expenses for bareboat charter (\$10,000 daily)	3,660	3,650	3,650	3,650	3,660
Time charter equivalent revenues	279,829	263,303	362,239	432,192	543,635
Net earnings days	9,747	9,192	12,013	14,690	15,712
Average TCE per vessel per day	\$ 28,709	\$ 28,645	\$ 30,154	\$ 29,421	\$ 34,600



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- (9) Vessel operating expenses per ship per day represents vessel operating expenses divided by the earnings capacity days of vessels incurring operating expenses. Earnings capacity days of vessels on bareboat or chartered-in have been excluded.
- (10) Vessel overhead burden per ship per day is the total of management fees, management incentive awards, stock compensation expense and general and administrative expenses divided by the total number of earnings capacity days.

**Capitalization and Indebtedness**

The table below sets forth our consolidated capitalization at December 31, 2008, as adjusted for the following events through March 31, 2009:

our debt repayments totaling \$21.3 million;

our repurchase of 231,100 common shares as treasury stock amounting to \$3.8 million; and

the increase in the net value of interest rate swaps and the related impact on stockholders' equity by \$4.8 million.

This table should be read in conjunction with our consolidated financial statements and the notes thereto, and Item 5. Operating and Financial Review and Prospects, included elsewhere in this Annual Report.

	As of December 31, 2008		
	Actual	Adjustments (Unaudited)	Adjusted
<i>In thousands of U.S. Dollars</i>			
Long-term secured debt obligations (including current portion)	\$ 1,513,629	\$ (21,290)	\$ 1,492,339
Negative fair value of interest rate swaps, net	91,554	(4,770)	86,784
Stockholders equity:			
Common shares, \$1.00 par value; 100,000,000 shares authorized; 37,671,392 issued	37,671		37,671
Cost of Treasury Stock (526,700 shares as at December 31, 2008 and 757,800 shares as adjusted)	(14,217)	(3,846)	(18,063)
Additional paid-in capital	265,932		265,932
Accumulated other comprehensive income/(loss)	(72,239)	3,566	(68,673)
Retained earnings	693,511	1,204	694,715
Total stockholders' equity	910,658	924	911,582
Total capitalization	\$ 2,515,841	\$ (25,136)	\$ 2,490,705

**Reasons For the Offer and Use of Proceeds**

Not Applicable.

**Risk Factors****Risks Related To Our Industry**

**The charter markets for crude oil carriers and product tankers have deteriorated significantly since the summer 2008, which could affect our future revenues, earnings and profitability.**

The Baltic Dirty Tanker Index declined from a high of 2,347 in July 2008 to a low of 453 in mid-April 2009, which represents a decline of 80%. The Baltic Clean Tanker Index has fallen over 1,160 points, or 77%, since the early summer of 2008. The decline in charter rates is due to various factors, including the significant fall in demand for crude oil and petroleum products, the consequent rising inventories of crude oil and petroleum products in the United States and in other industrialized nations and the corresponding reduction in oil refining, the dramatic fall in

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the price of oil in 2008, and the restrictions on crude oil production that the Organization of Petroleum Exporting Countries (OPEC) and other non-OPEC oil producing countries have imposed in an effort to stabilize the price of oil.

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We currently employ eight vessels in the spot market with existing charters scheduled to expire over the next 47 days, by which time, we will have to negotiate new employment for the remaining six vessels in the currently depressed charter market. In addition, 15 of our vessels are employed on time charters that expire between April and November of this year, four of our vessels are under contracts of affreightment which provide for periodic adjustments of their charter rates, based upon prevailing market rates and four newbuildings are scheduled to be delivered in the second half of 2009 and early 2010 for which we do not now have charters. If the current low rates in the charter market continue for any significant period in 2009 it will affect the charter revenue we will receive from these vessels, which could have an adverse effect on our revenues, profitability and cash flows. The decline in charter rates also affects the value of our vessels, which follows the trends of charter rates and earnings on our charters.

**Disruptions in world financial markets and the resulting governmental action in the United States and in other parts of the world could have a further material adverse impact on our results of operations, financial condition and cash flows, and could cause the market price of our common shares to further decline.**

The United States and other parts of the world are exhibiting deteriorating economic trends and have been in a recession. For example, the credit markets in the United States have experienced significant contraction, de-leveraging and reduced liquidity, and the United States federal government and state governments have implemented and are considering a broad variety of governmental action and/or new regulation of the financial markets.

Recently, a number of financial institutions have experienced serious financial difficulties and, in some cases, have sought and received significant government assistance or have been put under the control of regulatory authorities. The uncertainty surrounding the future of the credit markets in the United States and the rest of the world has resulted in reduced access to credit worldwide.

We face risks attendant to changes in economic environments, changes in interest rates, and instability in the banking, commodities and securities markets around the world, among other factors. Major market disruptions and the current adverse changes in market conditions and regulatory climate in the United States and worldwide may adversely affect our business or impair our ability to borrow amounts under our credit facilities or any future financial arrangements. We cannot predict how long the current market conditions will last. However, these recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, could have a material adverse effect on our results of operations, financial condition or cash flows, have caused the price of our common shares on the New York Stock Exchange to decline and could cause the price of our common shares to decline further.

**The tanker industry is highly dependent upon the crude oil and petroleum products industries.**

The employment of our vessels is driven by the availability of and demand for crude oil and petroleum products, the availability of modern tanker capacity and the scrapping, conversion or loss of older vessels. Historically, the world oil and petroleum markets have been volatile and cyclical as a result of the many conditions and events that affect the supply, price, production and transport of oil, including:

increases and decreases in the demand for crude oil and petroleum products;

availability of crude oil and petroleum products;

demand for crude oil and petroleum product substitutes, such as natural gas, coal, hydroelectric power and other alternate sources of energy that may, among other things, be affected by environmental regulation;

actions taken by OPEC and major oil producers and refiners;

global and regional political and economic conditions;

developments in international trade;

international trade sanctions;

environmental factors;

weather; and

changes in seaborne and other transportation patterns.

The turbulence the world economies are encountering has resulted in a fall in demand for crude oil and oil products which in turn has resulted in a decrease in freight rates and values. In addition, industry observers are

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forecasting that 2009 will witness the second consecutive decline in worldwide demand for oil and oil products. If the production of and demand for crude oil and petroleum products continues to decline in the future, a corresponding decrease in shipments of these products could have an adverse impact on the employment of our vessels and the charter rates that they command. In particular, the charter rates that we earn from our spot charters and contracts of affreightment and time-charters with profit-share may decline. In addition, overbuilding of tankers has, in the past, led to a decline in charter rates. If the supply of tanker capacity increases and the demand for tanker capacity does not, the charter rates paid for our vessels could materially decline. The resulting decline in revenues could have a material adverse effect on our revenues and profitability.

### **Charter hire rates are cyclical and volatile.**

The crude oil and petroleum products shipping industry is cyclical with attendant volatility in charter hire rates and profitability. After reaching highs in mid-2008, charter hire rates for oil product carriers fell significantly in the fall, improved in December, but fell again during the winter and early spring of 2009. Because we charter some of our vessels pursuant to spot market voyage charters, the charter rates for four of our vessels adjust periodically and the time charters for 15 of our vessels will expire over the next several months, we will be exposed to changes in the charter rates which could affect our earnings and the value of our vessels at any given time. Because the factors affecting the supply and demand for vessels are outside of our control and are unpredictable, the nature, timing, direction and degree of changes in industry conditions are also unpredictable.

### **The global tanker industry is highly competitive.**

We operate our fleet in a highly competitive market. Our competitors include owners of VLCCs, suezmax, aframax, panamax, handymax and handysize tankers. These competitors include other independent tanker companies, as well as national and independent oil companies, some of whom have greater financial strength and capital resources than we do. Competition in the tanker industry is intense and depends on price, location, size, age, condition, and the acceptability of the available tankers and their operators to potential charterers.

### **Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business.**

Throughout 2008 and into 2009, the frequency of piracy has increased significantly, particularly in the Gulf of Aden and off the west coast of Africa. For example, in November 2008, the *MV Sirius Star*, a tanker vessel not owned by us, was captured by pirates in the Indian Ocean while carrying crude oil estimated to be worth \$100 million. Recently, a tanker managed by Tsakos Shipping & Trading ( Tsakos Shipping ) was fired upon by pirates off the coast of Nigeria, although it successfully repelled their attack. If piracy attacks result in regions (in which our vessels are deployed) being characterized by insurers as war risk zones, as the Gulf of Aden temporarily was in May 2008, or Joint War Committee (JWC) war and strikes listed areas, premiums payable for insurance coverage could increase significantly and such insurance coverage may be more difficult to obtain. Crew costs, including those due to employing onboard security guards, could increase in such circumstances. In addition, while we believe the charterer remains liable for charter payments when a vessel is seized by pirates, the charterer may dispute this and withhold charter hire until the vessel is released. A charterer may also claim that a vessel seized by pirates was not on-hire for a certain number of days and it is therefore entitled to cancel the charter party, a claim that we would dispute. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition, results of operations and cash flows.

### **Terrorist attacks and international hostilities can affect the tanker industry, which could adversely affect our business.**

An attack like that of September 11, 2001 or longer-lasting wars or international hostilities, including those currently in Afghanistan and Iraq could damage the world economy and adversely affect the availability of and demand for crude oil and petroleum products and negatively affect our investment and our customers' investment decisions over an extended period of time. We conduct our vessel operations internationally and despite undertaking various security measures, our vessels may become subject to terrorist acts and other acts of hostility like piracy, either at port or at sea. Such actions could adversely impact our overall business, financial condition and operations. In addition, our financial viability may also be negatively affected by changing economic, political and governmental conditions in the countries and regions where our vessels are employed. Moreover, we operate in a sector of the economy that is likely to be adversely impacted by the effects of political instability, terrorist or other attacks, war or international hostilities.



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### **Taking advantage of attractive opportunities in pursuit of our growth strategy may result in financial or commercial difficulties.**

Despite the current economic crisis, a key strategy of management is to continue to further renew and grow our fleet by pursuing the acquisition of additional vessels or fleets or tanker companies that are complementary to our existing operations, assuming we have the financial resources and debt capacity to do so. We share the view commonly held by financial advisers to our Company that the crisis may present opportunities in the coming months to acquire new vessels or tanker companies or contracts to construct new vessels or even to undertake new construction contracts at prices more favorable than those seen in the recent past. If we seek to expand through such acquisitions of other tanker or companies, we face numerous challenges, including:

difficulties in raising all the required capital;

difficulties in the assimilation of acquired operations;

diversion of management's attention from other business concerns;

assumption of potentially unknown material liabilities or contingent liabilities of acquired companies;

competition from other potential acquirers, some of which have greater financial resources; and

potential loss of clients or key employees of acquired companies.

We cannot assure you that we will be able to integrate successfully the operations, personnel, services or vessels that we might acquire in the future, and our failure to do so could adversely affect our profitability.

### **We are subject to regulation and liability under environmental laws that could require significant expenditures and affect our cash flows and net income.**

Our business and the operation of our vessels are subject to extensive international, national and local environmental and health and safety laws and regulations in the jurisdictions in which our vessels operate, as well as in the country or countries of their registration. In addition, major oil companies chartering our vessels impose, from time to time, their own environmental and health and safety requirements. We have incurred significant expenses in order to comply with these regulations and requirements, including the costs of ship modifications and changes in operating procedures, additional maintenance and inspection requirements, contingency arrangements for potential spills, insurance coverage and full implementation of the new security-on-vessels requirements which came into effect on July 1, 2004.

In particular, certain international, national and local laws and regulations require, among other things, double hull construction for new tankers, as well as the retrofitting or phasing-out of single hull tankers based on each vessel's date of build, gross tonnage (a unit of measurement for the total enclosed spaces within a vessel) and/or hull configuration. We have sold all our vessels which were not double hull, except for the Vergina II which has been converted to a double hull vessel. All of the newbuildings we have contracted to purchase are double-hulled. However, because environmental regulations may become stricter, future regulations may limit our ability to do business, increase our operating costs and/or force the early retirement of our vessels, all of which could have a material adverse effect on our financial condition and results of operations.

International, national and local laws imposing liability for oil spills are also becoming increasingly stringent. Some impose joint, several, and in some cases, unlimited liability on owners, operators and charterers regardless of fault. We could be held liable as an owner, operator or charterer under these laws. In addition, under certain circumstances, we could also be held accountable under these laws for the acts or omissions of Tsakos Shipping or Tsakos Energy Management, companies that provide technical and commercial management services for our vessels and us, or others in the management or operation of our vessels. Although we currently maintain, and plan to continue to maintain, for each of our vessels pollution liability coverage in the amount of \$1 billion per incident (the maximum amount available), liability for a catastrophic spill

could exceed the insurance coverage we have available, and result in our having to liquidate assets to pay claims. In addition, we may be required to contribute to funds established by regulatory authorities for the compensation of oil pollution damage or provide financial assurances for oil spill liability to regulatory authorities.

**Maritime disasters and other operational risks may adversely impact our reputation, financial condition and results of operations.**

The operation of ocean-going vessels has an inherent risk of maritime disaster, environmental mishaps, cargo and property losses or damage and business interruptions caused by, among others:

mechanical failure;

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human error;

labor strikes;

adverse weather conditions;

vessel off hire periods;

regulatory delays; and

political action, civil conflicts, terrorism and piracy in countries where vessel operations are conducted, vessels are registered or from which spare parts and provisions are sourced and purchased.

Any of these circumstances could adversely affect our operations, result in loss of revenues or increased costs and adversely affect our profitability and our ability to perform our charters. Terrorist acts and regional hostilities around the world in recent years have led to increases in our insurance premium rates and the implementation of special war risk premiums for certain trading routes. More recent natural disasters, such as the hurricanes striking the United States, have led to yet further increases. Such increases in insurance rates adversely affect our profitability.

### **Our vessels could be arrested at the request of third parties.**

Under general maritime law in many jurisdictions, crew members, tort claimants, vessel mortgagees, suppliers of goods and services and other claimants may lien a vessel for unsatisfied debts, claims or damages. In many jurisdictions a maritime lien holder may enforce its lien by arresting a vessel through court process. In some jurisdictions, under the extended sister ship theory of liability, a claimant may arrest not only the vessel with respect to which the claimant's maritime lien has arisen, but also any associated vessel under common ownership or control. While in some jurisdictions which have adopted this doctrine, liability for damages is limited in scope and would only extend to a company and its shipowning subsidiaries, we cannot assure you that liability for damages caused by some other vessel determined to be under common ownership or control with our vessels would not be asserted against us.

### **Our vessels may be requisitioned by governments without adequate compensation.**

A government could requisition or seize our vessels. Under requisition for title, a government takes control of a vessel and becomes its owner. Under requisition for hire, a government takes control of a vessel and effectively becomes its charterer at dictated charter rates. Generally, requisitions occur during periods of war or emergency. Although we would be entitled to compensation in the event of a requisition, the amount and timing of payment would be uncertain.

## **Risks Related To Our Business**

### **Charters at attractive rates may not be available when our current time charters expire or when we negotiate employment for our four newbuildings.**

In 2008, we derived approximately 64% of our revenues from time charters, as compared to 62% in 2007. As the current period charters of 15 our vessels expire, it may not be possible to re-charter these vessels on a period basis at attractive rates given the current depressed state of the charter market. In addition, there can be no assurance that we will be successful in entering into time charters at attractive rates for the four newbuildings that will be delivered to us in the second half of 2009 and in the first half of 2010. If attractive period charter opportunities are not available, we would seek to charter our vessels on the spot market. Charter rates in the spot market are currently low and are subject to significant fluctuations, and tankers traded in the spot market may experience substantial off-hire time. In the event a vessel may not find employment at economically viable rates, management may opt to lay up the vessel until such time that rates become attractive again. During the period of lay up, the vessel will continue to incur expenditures such as insurance, reduced crew wages and maintenance costs.

**If our exposure to the spot market or contracts of affreightment increases, our revenues could suffer and our expenses could increase.**

The spot market for crude oil and petroleum product tankers is highly competitive. As a result of any increased reliance on the spot market, we may experience a lower utilization of our fleet, leading to a decline in operating revenue. Moreover, to the extent our vessels are employed in the spot market, both our revenue from

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vessels and our operating costs, specifically, our voyage expenses will be more significantly impacted by increases in the cost of bunkers (fuel). Unlike time charters in which the charterer bears all of the bunker costs, in spot market voyages we bear the bunker charges as part of our voyage costs. As a result, while historical increases in bunker charges are factored into the prospective freight rates for spot market voyages periodically announced by WorldScale Association (London) Limited and similar organizations, increases in bunker charges in any given period could have a material adverse effect on our cash flow and results of operations for the period in which the increase occurs. In addition, to the extent we employ our vessels pursuant to contracts of affreightment or under pooling arrangements, the rates that we earn from the charterers under those contracts may be subject to reduction based on market conditions, which could lead to a decline in our operating revenue.

### **We depend on Tsakos Energy Management and Tsakos Shipping to manage our business.**

We do not have the employee infrastructure to manage our operations and have no physical assets except our vessels and the newbuildings that we have under contract. We have engaged Tsakos Energy Management to perform all of our executive functions. Tsakos Energy Management directly provides us with financial, accounting and other back-office services, including acting as our liaison with the New York Stock Exchange and the Bermuda Stock Exchange. Tsakos Energy Management, in turn, oversees and subcontracts commercial management, day-to-day fleet technical management, such as crewing, chartering and vessel purchase and sale functions, to Tsakos Shipping, one of the world's largest independent tanker managers. As a result, we depend upon the continued services of Tsakos Energy Management and Tsakos Energy Management depends on the continued services of Tsakos Shipping.

We derive significant benefits from our relationship with the Tsakos Group, including purchasing discounts to which we otherwise would not have access. We would be materially adversely affected if either Tsakos Energy Management or Tsakos Shipping becomes unable or unwilling to continue providing services for our benefit at the level of quality they have provided such services in the past and at comparable costs as they have charged in the past. If we were required to employ a ship management company other than Tsakos Energy Management, we cannot offer any assurances that the terms of such management agreements and results of operations would be more beneficial to the Company in the long term.

### **Tsakos Energy Management and Tsakos Shipping are privately held companies and there is little or no publicly available information about them.**

The ability of Tsakos Energy Management and Tsakos Shipping to continue providing services for our benefit will depend in part on their own financial strength. Circumstances beyond our control could impair their financial strength and, because both of these companies are privately held, it is unlikely that information about their financial strength would become public unless these companies began to default on their obligations. As a result, an investor in our common shares might have little advance warning of problems affecting Tsakos Energy Management or Tsakos Shipping, even though these problems could have a material adverse effect on us.

### **Tsakos Energy Management has the right to terminate its management agreement with us and Tsakos Shipping has the right to terminate its contract with Tsakos Energy Management.**

Tsakos Energy Management may terminate its management agreement with us at any time upon one year's notice. In addition, if even one director were to be elected to our board without having been recommended by our existing board, Tsakos Energy Management would have the right to terminate the management agreement on 10 days' notice. If Tsakos Energy Management terminates the agreement for this reason, we would be obligated to pay Tsakos Energy Management the present discounted value of all payments that would have otherwise become due under the management agreement until June 30 in the tenth year following the date of the termination plus the average of the incentive awards previously paid to Tsakos Energy Management multiplied by ten. A termination as of December 31, 2008 would have resulted in a payment of approximately \$126 million.

Tsakos Energy Management's contract with Tsakos Shipping may be terminated by either party upon six months' notice and would terminate automatically upon termination of our management agreement with Tsakos Energy Management.

### **Our ability to pursue legal remedies against Tsakos Energy Management and Tsakos Shipping is very limited.**

In the event Tsakos Energy Management breached its management agreement with us, we could bring a lawsuit against Tsakos Energy Management. However, because we are not ourselves party to a contract with Tsakos

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Shipping, it may be impossible for us to sue Tsakos Shipping for breach of its obligations under its contract with Tsakos Energy Management, and Tsakos Energy Management may have no incentive to sue Tsakos Shipping. Tsakos Energy Management is a company with no substantial assets and no income other than the income it derives under our management agreement. Therefore, it is unlikely that we would be able to obtain any meaningful recovery if we were to sue Tsakos Energy Management or Tsakos Shipping on contractual grounds.

### **Tsakos Shipping manages other tankers and could experience conflicts of interests in performing obligations owed to us and the operators of the other tankers.**

In addition to the vessels that it manages for us, Tsakos Shipping manages three other VLCC tankers, two double-hull and one single-hull, that operate under long term charters, plus two other tankers aged over twenty years and three newly-delivered panamax tankers. These vessels are operated by the same group of Tsakos Shipping employees that manage our vessels, and Tsakos Shipping has advised us that its employees manage these vessels on an ownership neutral basis; that is, without regard to who owns them. Due to their age and design, the older tankers that are managed by Tsakos Shipping primarily serve a different market than the market served by our vessels, however, it is possible that Tsakos Shipping might allocate charter or spot opportunities to other Tsakos Shipping vessels when our vessels are unemployed, or could allocate more lucrative opportunities to its other vessels. It is also possible that Tsakos Shipping could in the future agree to manage more tankers that directly compete with us.

### **Clients of Tsakos Shipping have acquired and may acquire further vessels that may compete with our fleet.**

Tsakos Shipping has given us a right of first refusal on any opportunity to purchase a tanker which is 10 years of age or younger or contract to construct a tanker that is referred to or developed by Tsakos Shipping. Were we to decline any opportunity offered to us, or if we do not have the resources or desire to accept it, other clients of Tsakos Shipping might decide to accept the opportunity. In this context, Tsakos Shipping clients have recently taken delivery of three modern panamax tankers with a fourth for delivery in May 2009. Two of the delivered vessels now operate in a pool which could be in competition with our fleet and the third has been chartered to a common client on the same terms as our vessels chartered to the same client. These charters and future charters of tankers by Tsakos Shipping could result in conflicts of interest between their own interests and their obligations to us.

### **Our chief executive officer has affiliations with Tsakos Energy Management and Tsakos Shipping which could create conflicts of interest.**

Nikolas Tsakos is the president, chief executive officer and a director of our company and the director and sole shareholder of Tsakos Energy Management. Nikolas Tsakos is also the son of the founder of Tsakos Shipping. These responsibilities and relationships could create conflicts of interest that could result in our losing revenue or business opportunities or increase our expenses.

### **Our commercial arrangements with Tsakos Energy Management and Argosy may not always remain on a competitive basis.**

We pay Tsakos Energy Management a management fee for its services pursuant to our management agreement. We also place our hull and machinery insurance, increased value insurance and loss of hire insurance through Argosy Insurance Company, Bermuda, a captive insurance company affiliated with Tsakos Shipping. We believe that the management fees that we pay Tsakos Energy Management compare favorably with management compensation and related costs reported by other publicly traded shipping companies and that our arrangements with Argosy are structured at arms-length market rates. Our board reviews publicly available data periodically in order to confirm this. However, we cannot assure you that the fees charged to us are or will continue to be as favorable to us as those we could negotiate with third parties and our board could determine to continue transacting business with Tsakos Energy Management and Argosy even if less expensive alternatives were available from third parties.

### **We depend on our key personnel.**

Our future success depends particularly on the continued service of Nikolas Tsakos, our president and chief executive officer and the sole shareholder of Tsakos Energy Management. The loss of Mr. Tsakos's services or the services of any of our key personnel could have a material adverse effect on our business. We do not maintain key man life insurance on any of our executive officers.

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**Because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels which may adversely affect our earnings.**

The fair market value of tankers may increase or decrease depending on any of the following:

general economic and market conditions affecting the tanker industry;

supply and demand balance for ships within the tanker industry;

competition from other shipping companies;

types and sizes of vessels;

other modes of transportation;

cost of newbuildings;

governmental or other regulations;

prevailing level of charter rates; and

technological advances.

The global economic recession that commenced in 2008 will likely result in a decrease in vessel values. In addition, although we currently own a modern fleet, as vessels grow older, they generally decline in value.

We have a policy of considering the disposal of tankers periodically and in particular after they reach 20 years of age. If we sell tankers at a time when tanker prices have fallen, the sale may be at less than the vessel's carrying value on our financial statements, with the result that we will incur a loss.

In addition, accounting pronouncements require that we periodically review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss for an asset held for use should be recognized when the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount. Measurement of the impairment loss is based on the fair value of the asset as provided by third parties. In this respect, management regularly reviews the carrying amount of our vessels in connection with the estimated recoverable amount for each vessel. Such reviews may from time to time result in asset write-downs that could adversely affect our financial condition and results of operations. No such impairment loss has been incurred since 2002.

**If Tsakos Shipping is unable to attract and retain skilled crew members, our reputation and ability to operate safely and efficiently may be harmed.**

Our continued success depends in significant part on the continued services of the officers and seamen whom Tsakos Shipping provides to crew our vessels. The market for qualified, experienced officers and seamen is extremely competitive and has grown more so in recent periods as a result of the growth in world economies and other employment opportunities. Although Tsakos Shipping has a contract with a manning agency

and sponsors various marine academies in the Philippines, Greece and the Ukraine and has a manning office in Odessa, Ukraine, we cannot assure you that Tsakos Shipping will be successful in its efforts to recruit and retain properly skilled personnel at commercially reasonable salaries. Any failure to do so could adversely affect our ability to operate cost-effectively and our ability to increase the size of our fleet.

**Labor interruptions could disrupt our operations.**

Substantially all of the seafarers and land based employees of Tsakos Shipping are covered by industry-wide collective bargaining agreements that set basic standards. We cannot assure you that these agreements will prevent labor interruptions. In addition, some of our vessels operate under flags of convenience and may be vulnerable to unionization efforts by the International Transport Federation and other similar seafarer organizations which could be disruptive to our operations. Any labor interruption or unionization effort which is disruptive to our operations could harm our financial performance.

**The contracts to purchase our newbuildings present certain economic and other risks.**

We currently have contracts to construct four newbuildings that are scheduled for delivery during 2009 and 2010. If available, we may also order additional newbuildings. During the course of construction of a vessel, we are typically required to make progress payments. While we have refund guarantees from banks to cover defaults by the shipyards and our construction contracts would be saleable in the event of our payment default, we can still incur economic losses in the event that we or the shipyards are unable to perform our respective obligations. Shipyards periodically experience financial difficulties.



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### **Credit conditions internationally might impact our ability to raise debt financing**

We have traditionally financed our vessel acquisitions with cash (equity) and bank debt from various reputable national and international commercial banks. In relation to newbuilding contracts, the equity portion covers all or part of the pre-delivery obligations while the debt portion covers the outstanding amount due to the ship yard on delivery. To date, we have not secured bank financing for our remaining obligations to the ship yards, although negotiations are in progress. Terms and conditions, however, could be different from terms obtained in the past and could result in higher cost of capital. In addition revised covenants might be imposed that might limit our flexibility in terms of dividend payments and other operational matters and materially affect our ability to raise additional debt from the market. In addition, we cannot guarantee the financial state of the banks we deal with nor their short or long term viability as going-concerns. Any adverse development in that respect could materially alter our current and future financial planning and growth and have a potentially negative impact on our balance sheet.

### **We may not be able to finance all of the vessels we currently have on order.**

We have not finalized financing arrangements to satisfy the balance of the purchase price due, approximately \$109 million, for the four aframax vessels that we have on order (two for delivery in the second half of 2009 and two for delivery in the first half of 2010). We cannot assure you that we will be able to obtain additional financing for these newbuildings on terms that are favorable to us or at all.

If we were unable to finance further installments for the newbuildings we have on order, an alternative would be to attempt to sell the uncompleted vessels to a buyer who would assume the remainder of the contractual obligations. The amount we would receive from the buyer would depend on market circumstances and could result in a deficit over the advances we had paid to the date of sale plus capitalized costs. Alternatively, we may default on the contract, in which case the builder would sell the vessel and refund our advances less any amounts the builder would deduct to cover all of its own costs. We would be obliged to cover any deficiency arising in such circumstances.

Apart from the delay in receiving the refund of advances and the possible payment of any deficiencies, the direct effect on our operations of not acquiring the vessel would be to forego any revenues and related vessel operating cash flows.

### **We may sell one or more of our newbuildings.**

While we intend to take delivery of and operate all four newbuildings we currently have on order, attractive opportunities may arise to sell one or more of these vessels while they are under construction or after they are delivered. Our board of directors will review any such opportunity and may conclude that the sale of one or more vessels would be in our best interests. If we sell a vessel, we would receive the proceeds from the sale, repay any indebtedness we had incurred relating to such newbuilding and we would no longer be responsible for further installments under the relevant newbuilding contract. We would, however, forego any revenues and operating cash flows associated with such newbuilding.

### **The profitability of our LNG vessel is subject to market volatility.**

The LNG market is still in its infancy and could fail to develop into a mature state for profitable LNG shipping investments. In such market scenarios, we could fail to dispose of our LNG carrier. If we decide to exit this sector, for whatever reason, we might have to sell the vessel at a price below its cost and subsequently suffer an economic loss or might be forced to operate the vessel at unprofitable or breakeven levels. The vessel is currently on charter until June 2010, with options for a further two years. If the charter market is weak on the expiry of the charter we might not be able to secure new employment or be obliged to accept charters for rates materially below those originally factored into our investment evaluation.

### **The effectiveness of attaining accretive charters for the LNG carrier would be determined by the reliability and experience of third-party technical managers.**

We have subcontracted all technical management aspects of our LNG operation to Hyundai Merchant Marine for a fee. Neither Tsakos Energy Management nor Tsakos Shipping has the dedicated personnel for running LNG operations nor can we guarantee that they will employ an adequate number of employees in the future. As such, we are totally dependent on the reliability and effectiveness of third-party managers for whom we can not guarantee that their employees, both onshore and at-sea are adequate in their assigned role. We can not guarantee the quality of their services or the longevity of the management contract.

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### **Our earnings may be adversely affected if we do not successfully employ our tankers.**

We seek to employ our tankers on time charters, contracts of affreightment, tanker pools and in the spot market in a manner that will optimize our earnings. As of December 31, 2008, 38 of our tankers were contractually committed to period employment (including contract of affreightment) with remaining terms ranging from one month to five years. Although these period charters provide steady streams of revenue, our tankers committed to period charters may not be available for spot voyages during an upswing in the tanker industry cycle, when spot voyages may be more profitable. If we cannot re-charter these vessels on long-term period charters or trade them in the spot market profitably, our results of operations and operating cash flow may suffer.

### **Fuel prices may adversely affect our profits.**

While we do not bear the cost of fuel or bunkers, under time and bareboat charters, fuel is a significant, if not the largest, expense in our shipping operations when vessels are under spot charter. Changes in the price of fuel may adversely affect our profitability. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by the OPEC and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. Further, fuel may become much more expensive in the future, which may reduce the profitability of our business.

### **Our significant investment in ice-class vessels might not prove successful.**

We have made significant investments in building a solid presence in the ice-class tanker market through both building and acquiring ice strengthened vessels. This type of vessel commonly commands a premium to build and/or acquire to compensate for the ice-class features of the hull and engine. The versatility of these vessels allows them to operate not only in ice-bound routes, but also in conventional tanker routes. Usually rates for ice bound trades are at a premium to conventional tanker trades for the period the vessel operates in such demanding conditions. Ice-class vessels do not commonly operate throughout the year in such harsh environments. We can not guarantee that our vessels will operate in ice-class trades for meaningful periods and/or earn rates with premiums to compensate for the investment made. If our vessels fail to earn any material and sustained ice-class premium, their revenues would derive from conventional routes which we can not guarantee will be adequate to financially support our ice-class investment.

### **If our counterparties were to fail to meet their obligations under a charter agreements we could suffer losses or our business could be otherwise adversely affected.**

Thirty-three of our vessels are currently employed under time charters and four of our vessels are currently employed on contracts of affreightment. The ability and willingness of each of our counterparties to perform its obligations under their charters with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the oil and energy industries and of the oil and oil products shipping industry as well as the overall financial condition of the counterparties. With the steep declines in the prices of crude oil and oil products, there can be no assurance that some of our customers would not fail to pay charter hire or attempt to renegotiate charter rates. Should a counterparty fail to honor its obligations under agreements with us, it may be difficult for us to secure substitute employment for the affected vessels, and any new charter arrangements we secure in the spot market or on time charters could be at lower rates given the currently depressed charter rate levels. If our charterers fail to meet their obligations to us or attempt to renegotiate our charter agreements, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows, as well as our ability to pay dividends in the future.

### **If the charterer under our bareboat charter is unable to perform under the charter, we may lose revenues.**

We currently have a bareboat charter contract for the *Millennium* and time charters with profit share for four other vessels with Hyundai Merchant Marine (HMM), a member of the Hyundai group of companies. The financial difficulties that the Hyundai group has faced in the past may still affect HMM's ability to perform under these charters, which are scheduled to expire between 2009 and 2013. This could result in the loss of significant revenue. In addition, we may expand this chartering relationship with HMM to other vessels in our fleet which would ultimately increase our exposure to that particular charterer.

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### **We will face challenges as we diversify and position our fleet to meet the needs of our customers.**

We may need to diversify our fleet to accommodate the transportation of forms of energy other than crude oil and petroleum products in response to industry developments and our customers' needs. Accordingly, the Company is continually exploring opportunities in other areas such as the Liquefied Petroleum Gas (LPG) market and the greater oil onshore / offshore sector. As the composition of our fleet continues to change, we may not have adequate experience in transporting these other forms of energy. In addition, if the cost structure of a diversified fleet that is able to transport other forms of energy differs significantly from the cost structure of our current fleet, our profitability could be adversely affected.

### **We may not have adequate insurance.**

In the event of a casualty to a vessel or other catastrophic event, we will rely on our insurance to pay the insured value of the vessel or the damages incurred. We believe that we maintain as much insurance on our vessels, through insurance companies, including Argosy, a related party company and P&I clubs as is appropriate and consistent with industry practice. However, particularly in view of the conflicts in Afghanistan, Iraq and elsewhere, and pirate activity off the coast of Africa, we cannot assure you that this insurance will remain available at reasonable rates, and we cannot assure you that the insurance we are able to obtain will cover all foreseen liabilities that we may incur, particularly those involving oil spills and catastrophic environmental damage. In addition, we may not be able to insure certain types of losses, including loss of hire, for which insurance coverage may become unavailable.

### **We are subject to funding calls by our protection and indemnity clubs, and our clubs may not have enough resources to cover claims made against them.**

Our subsidiaries are indemnified for legal liabilities incurred while operating our vessels through membership in P&I clubs. P&I clubs are mutual insurance clubs whose members must contribute to cover losses sustained by other club members. The objective of a P&I club is to provide mutual insurance based on the aggregate tonnage of a member's vessels entered into the club. Claims are paid through the aggregate premiums of all members of the club, although members remain subject to calls for additional funds if the aggregate premiums are insufficient to cover claims submitted to the club. Claims submitted to the club may include those incurred by members of the club, as well as claims submitted to the club from other P&I clubs with which our P&I club has entered into interclub agreements. We cannot assure you that the P&I clubs to which we belong will remain viable or that we will not become subject to additional funding calls which could adversely affect our profitability.

### **The insolvency or financial deterioration of any of our insurers or reinsurers would negatively affect our ability to recover claims for covered losses on our vessels.**

We have placed our hull and machinery, increased value and loss of hire insurance with Argosy, a captive insurance company affiliated with Tsakos Shipping. Argosy reinsures the insurance it underwrites for us with various reinsurers, however, the coverage deductibles of the reinsurance policies periodically exceed the coverage deductibles of the insurance policies Argosy underwrites for us. Argosy, therefore, would be liable with respect to the difference between those deductibles in the event of a claim by us to which the deductibles apply. Although these reinsurers have credit ratings ranging from BBB to AA, we do not have the ability to independently determine our insurers' and reinsurers' creditworthiness or their ability to pay on any claims that we may have as a result of a loss. In the event of insolvency or other financial deterioration of our insurer or its reinsurers, we cannot assure you that we would be able to recover on any claims we suffer.

### **Our degree of leverage and certain restrictions in our financing agreements impose constraints on us.**

We incur substantial debt to finance the acquisition of our tankers. At December 31, 2008, our debt to capital ratio was 62.4 % (debt / debt plus equity), with \$1.51 billion in long-term debt outstanding. Assuming known and estimated debt financing arrangements for our future newbuilding deliveries and based on our current forecasts of income for 2009 and 2010, we expect this ratio to be at approximately 60% by the end of December 2009, and declining thereafter. We are required to apply a substantial portion of our cash flow from operations, before interest payments, to the payment of principal and interest on this debt. In 2008, approximately 33% of cash flow derived from operations was dedicated to debt service, excluding any debt prepayment upon the sale of vessels. This limits the funds available for working capital, capital expenditures, dividends and other purposes. Our degree of leverage could have important consequences for us, including the following:

a substantial decrease in our net operating cash flows or an increase in our expenses could make it difficult for us to meet our debt service requirements and force us to modify our operations;



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we may be more highly leveraged than our competitors, which may make it more difficult for us to expand our fleet; and

any significant amount of leverage exposes us to increased interest rate risk and makes us vulnerable to a downturn in our business or the economy generally.

In addition, our financing arrangements, which we secured by mortgages on our ships, impose operating and financial restrictions on us that restrict our ability to:

incur additional indebtedness;

create liens;

sell the capital of our subsidiaries or other assets;

make investments;

engage in mergers and acquisitions;

make capital expenditures;

repurchase common shares; and

pay cash dividends.

We have a holding company structure which depends on dividends from our subsidiaries and interest income to pay our overhead expenses and otherwise fund expenditures consisting primarily of advances on newbuilding contracts and the payment of dividends to our shareholders. As a result, restrictions contained in our financing arrangements and those of our subsidiaries on the payment of dividends may restrict our ability to fund our various activities.

### **If the recent volatility in LIBOR continues, it could affect our profitability, earnings and cash flow.**

LIBOR has recently been volatile, with the spread between LIBOR and the prime lending rate widening significantly at times. These conditions are the result of the recent disruptions in the international credit markets. Because the interest rates borne by our outstanding indebtedness fluctuate with changes in LIBOR, if this volatility were to continue, it would affect the amount of interest payable on our debt, which in turn, could have an adverse effect on our profitability, earnings and cash flow.

Furthermore, interest in most loan agreements in our industry has been based on published LIBOR rates. Recently, however, lenders have insisted on provisions that entitle the lenders, in their discretion, to replace published LIBOR as the base for the interest calculation with their cost-of-funds rate. If we are required to agree to such a provision in future loan agreements, our lending costs could increase significantly, which would have an adverse effect on our profitability, earnings and cash flow.

### **We selectively enter into derivative contracts, which can result in higher than market interest rates and charges against our income.**

In the past nine years we have selectively entered into derivative contracts both for investment purposes and to hedge our overall interest expense. Our board of directors is regularly informed of the status of our derivatives in order to assess that such derivatives are within reasonable

limits and reasonable in light of our particular investment strategy at the time we entered into the derivative contracts.

Loans advanced under our secured credit facilities are, generally, advanced at a floating rate based on LIBOR. Our financial condition could be materially adversely affected at any time that we have not entered into interest rate hedging arrangements to hedge our interest rate exposure and the interest rates applicable to our credit facilities and any other financing arrangements we may enter into in the future, including those we enter into to finance a portion of the amounts payable with respect to newbuildings. Moreover, even if we have entered into interest rate swaps or other derivative instruments for purposes of managing our interest rate exposure, our hedging strategies may not be effective and we may incur substantial loss.

We have a risk management policy and a risk committee to oversee all our derivative transactions. It is our policy to monitor our exposure to business risk, and to manage the impact of changes in interest rates, foreign exchange rate movements and bunker prices on earnings and cash flows through derivatives. Derivative contracts are executed when management believes that the action is not likely to significantly increase overall risk. Entering into swaps and derivatives transactions is inherently risky and presents various possibilities for incurring significant

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expenses. The derivatives strategies that we employ in the future may not be successful or effective, and we could, as a result, incur substantial additional interest costs. See **Quantitative and Qualitative Disclosures About Market Risk** for a description of how our current interest rate swap arrangements have been impacted by recent events.

### **The appraised values of our ships could deteriorate as the result of a variety of factors, resulting in our inability to comply with covenants under our loan agreements.**

The loan agreements we use to finance our ships require us not to exceed specified debt-to-asset ratios. Our only significant assets are our ships, which are appraised each year. The appraised value of a ship fluctuates depending on a variety of factors including the age of the ship, its hull configuration, prevailing charter market conditions, supply and demand balance for ships and new and pending legislation.

We cannot guarantee that a deterioration of our asset values will not result in defaults in the future, nor can we guarantee that we will be able to negotiate a waiver in the event of a default. A default under one of our loan agreements could trigger cross-acceleration or cross-default provisions in our other loan agreements, which in turn could result in all or a substantial amount of our debt becoming due at a time when we could not satisfy our obligations.

### **If we default under any of our loan agreements, we could forfeit our rights in our vessels and their charters.**

All of our vessels and related collateral are individually pledged as security to the respective lenders under our loan agreements. Default under any of these loan agreements, if not waived or modified, would permit the lenders to foreclose on the mortgages over the vessels and the related collateral, and we could lose our rights in the vessels and their charters.

### **Our vessels may suffer damage and we may face unexpected dry-docking costs which could affect our cash flow and financial condition.**

If our vessels suffer damage, they may need to be repaired at a dry-docking facility. The costs of drydock repairs can be both substantial and unpredictable. We may have to pay dry-docking costs that our insurance does not cover. This would result in decreased earnings.

### **A significant amount of our 2008 revenues was derived from four customers and a significant amount of our 2007 revenues was derived from five customers, and our revenues could decrease significantly if we lost these customers.**

In 2008, 15% of our revenues came from Houston Refining (formerly Lyondell/Citgo), 11% of our revenues came from Petrobras, 11% of our revenues from HMM and approximately 8% from NESTE. Our inability or failure to continue to employ our vessels at rates comparable to those earned from these customers, the loss of these customers or our failure to charter these vessels otherwise in a reasonable period of time or at all could adversely affect our operations and performance. Although our customers generally include leading national, major and other independent oil companies and refiners, we are unable to assure you that future economic circumstances will not render one or more of such customers unable to pay us amounts that they owe us, or that these important customers will not decide to contract with our competitors or perform their shipping functions themselves.

### **Approximately 15% of our revenue is derived from our customers that conduct a significant amount of business in Venezuela.**

Houston Refining (formerly Lyondell/Citgo), accounted for approximately 15% in 2008 and 12% in 2007 of our revenues. This company conducts a significant amount of business in Venezuela. Venezuela has experienced economic difficulties and social and political changes in recent years and we cannot say whether there will be further unrest or political upheavals in Venezuela. If we were to lose this customer, or if its exports were curtailed, or if this customer was to become unable to perform their contractual obligations to us, our earnings would be adversely affected.

### **If we were to be subject to tax in jurisdictions in which we operate, our financial results would be adversely affected.**

Our income is not presently subject to taxation in Bermuda, which currently has no corporate income tax. We believe that we should not be subject to tax under the laws of various countries other than the United States in which we conduct activities or in which our customers are located. However, our belief is based on our understanding of the tax laws of those countries, and our tax position is subject to review and possible challenge by taxing authorities





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and to possible changes in law or interpretation. We cannot determine in advance the extent to which certain jurisdictions may require us to pay tax or to make payments in lieu of tax. In addition, payments due to us from our customers may be subject to tax claims.

Under the United States Internal Revenue Code of 1986, as amended (the Internal Revenue Code ), 50% of the gross shipping income of a vessel owning or chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States is characterized as United States source shipping income and such income is subject to a gross 4% United States federal income tax without allowance for deductions, unless that corporation qualifies for exemption from tax under Section 883 of the Internal Revenue Code and the Treasury Regulations thereunder.

We believe that we and our subsidiaries qualified for this exemption for 2008. There are, however, factual circumstances beyond our control that could cause us and our subsidiaries to be unable to obtain the benefit of this tax exemption in future years and thus to be subject to United States federal income tax on United States source shipping income. Due to the factual nature of the issues involved, we can give no assurances on our tax-exempt status or that of any of our subsidiaries. See Tax Considerations United States federal income tax considerations for additional information about the requirements of this exemption.

If we or our subsidiaries are not entitled to this exemption under Section 883 for any taxable year, we or our subsidiaries would be subject for those years to a 4% United States federal income tax on our gross U.S.-source shipping income, without allowance for deductions, under Section 887 of the Internal Revenue Code. The imposition of such tax could have a negative effect on our business and would result in decreased earnings available for distribution to our stockholders.

**If we were treated as a passive foreign investment company, a U.S. investor in our common shares would be subject to disadvantageous rules under the U.S. tax laws.**

If we were treated as a passive foreign investment company (a PFIC ) in any year, U.S. holders of our common shares would be subject to unfavorable U.S. federal income tax treatment. We do not believe that we will be a PFIC in 2009 or in any future year. However, PFIC classification is a factual determination made annually and we could become a PFIC if the portion of our income derived from bareboat charters or other passive sources were to increase substantially or if the portion of our assets that produce or are held for the production of passive income were to increase substantially. Moreover, the IRS or a court may disagree with our position that time and voyage charters do not give rise to passive income (and that the related vessels are not passive assets) for purposes of the PFIC rules. In this regard we note that, while there is no authority specifically under the PFIC rules regarding the characterization of time or voyage charters as leases or service contracts and there are older authorities in other areas of the tax law that tend to support our position regarding time and voyage charters, a recent federal court decision addressing the characterization of time charters concludes that they constitute leases for federal income tax purposes and employs an analysis which, if applied to our time or voyage charters, could result in our treatment as a PFIC. Accordingly, we can provide no assurance that we will not be treated as a PFIC for 2009 or for any future year. Please see Tax Considerations United States federal income tax considerations Passive Foreign Investment Company Considerations herein for a description of the PFIC rules.

**Dividends we pay with respect to our common shares to United States holders would not be eligible to be taxed at reduced U.S. tax rates applicable to qualifying dividends if we were a passive foreign investment company or under other circumstances.**

For taxable years beginning prior to January 1, 2011, distributions on the common shares of non-U.S. companies that are treated as dividends for U.S. federal income tax purposes and are received by individuals generally will be eligible for taxation at capital gain rates if the common shares with respect to which the dividends are paid are readily tradable on an established securities market in the United States. This treatment will not be available to dividends we pay, however, if we qualify as a PFIC for the taxable year of the dividend or the preceding taxable year, or to the extent that (i) the shareholder does not satisfy a holding period requirement that generally requires that the shareholder hold the shares on which the dividend is paid for more than 60 days during the 121-day period that begins 60 days before the date on which the shares become ex-dividend with respect to such dividend, (ii) the shareholder is under an obligation to make related payments with respect to substantially similar or related property or (iii) such dividend is taken into account as investment income under Section 163(d)(4)(B) of the Internal Revenue Code. We do not believe that we qualified as a PFIC for our last taxable year and, as described above, we do not expect to qualify as a PFIC for our current or future taxable years. Legislation has been proposed in the United States Congress which, if enacted in its current form, would likely cause dividends on our shares to be ineligible for the preferential tax rates described above. There can be no assurance regarding whether, or in what form, such legislation will be enacted.

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### **Because some of our expenses are incurred in foreign currencies, we are exposed to exchange rate risks.**

The charterers of our vessels pay us in U.S. dollars. While we incur most of our expenses in U.S. dollars, we have in the past incurred expenses in other currencies, most notably the Euro. In 2008, Euro expenses accounted for approximately 20% of our total operating expenses. Declines in the value of the U.S. dollar relative to the Euro, or the other currencies in which we incur expenses, would increase the U.S. dollar cost of paying these expenses and thus would adversely affect our results of operations.

### **The Tsakos Holdings Foundation and the Tsakos family can exert considerable control over us, which may limit your ability to influence our actions.**

As of December 31, 2008, companies controlled by the Tsakos Holdings Foundation or affiliated with the Tsakos Group own approximately 39% of our common shares. The Tsakos Holdings Foundation is a Liechtenstein foundation whose beneficiaries include persons and entities affiliated with the Tsakos family, charitable institutions and other unaffiliated persons and entities. The council which controls the Tsakos Holdings Foundation consists of five members, two of whom are members of the Tsakos family. As long as the Tsakos Holdings Foundation and the Tsakos family beneficially own a significant percentage of our common shares, each will have the power to influence the election of the members of our board of directors and the vote on substantially all other matters, including significant corporate actions.

## **Risks Related To Our Common Shares**

### **We may not be able to pay cash dividends on our common shares as intended.**

In October of 2008, we paid a cash dividend of \$0.90 per common share in relation to the year 2008. In April 2009, we paid a further dividend of \$0.85 per common share relating to 2008. Subject to the limitations discussed below, we currently intend to continue to pay regular cash dividends on our common shares of between one-quarter and one-half of our annual net income for the year in respect of which the dividends are paid. However, there can be no assurance that we will pay dividends or as to the amount of any dividend. The payment and the amount will be subject to the discretion of our board of directors and will depend, among other things, on available cash balances, anticipated cash needs, our results of operations, our financial condition, and any loan agreement restrictions binding us or our subsidiaries, as well as other relevant factors. For example, if we earned a capital gain on the sale of a vessel or newbuilding contract, we could determine to reinvest that gain instead of using it to pay dividends. Depending on our operating performance for that year, this could result in no dividend at all despite the existence of net income, or a dividend that represents a lower percentage of our net income. Any payment of cash dividends could slow our ability to renew and expand our fleet, and could cause delays in the completion of our current newbuilding program.

Because we are a holding company with no material assets other than the stock of our subsidiaries, our ability to pay dividends will depend on the earnings and cash flow of our subsidiaries and their ability to pay us dividends. In addition, the financing arrangements for indebtedness we incur in connection with our newbuilding program may further restrict our ability to pay dividends. In the event of any insolvency, bankruptcy or similar proceedings of a subsidiary, creditors of such subsidiary would generally be entitled to priority over us with respect to assets of the affected subsidiary. Investors in our common shares may be adversely affected if we are unable to or do not pay dividends as intended.

### **Provisions in our Bye-laws, our management agreement with Tsakos Energy Management and our shareholder rights plan would make it difficult for a third party to acquire us, even if such a transaction is beneficial to our shareholders.**

Our Bye-laws provide for a staggered board of directors, blank check preferred stock, super majority voting requirements and other anti-takeover provisions, including restrictions on business combinations with interested persons and limitations on the voting rights of shareholders who acquire more than 15% of our common shares. In addition, Tsakos Energy Management would have the right to terminate our management agreement and seek liquidated damages if a board member were elected without having been approved by the current board. Furthermore, our shareholder rights plan authorizes issuance to existing shareholders of substantial numbers of preferred share rights and common shares in the event a third party seeks to acquire control of a substantial block of our common shares. These provisions could deter a third party from tendering for the purchase of some or all of our shares. These provisions may have the effect of delaying or preventing changes of control of the ownership and management of our company, even if such transactions would have significant benefits to our shareholders.

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### **Our shareholder rights plan could prevent you from receiving a premium over the market price for your common shares from a potential acquirer.**

Our board of directors has adopted a shareholder rights plan that authorizes issuance to our existing shareholders of substantial preferred share rights and additional common shares if any third party acquires 15% or more of our outstanding common shares or announces its intent to commence a tender offer for at least 15% of our common shares, in each case, in a transaction that our board of directors has not approved. The existence of these rights would significantly increase the cost of acquiring control of our company without the support of our board of directors because, under these limited circumstances, all of our shareholders, other than the person or group that caused the rights to become exercisable, would become entitled to purchase our common shares at a discount. The existence of the rights plan could therefore deter potential acquirers and thereby reduce the likelihood that you will receive a premium for your common shares in an acquisition. See "Description of Capital Stock - Shareholder Rights Plan" for a description of our shareholder rights plan.

### **Because we are a foreign corporation, you may not have the same rights as a shareholder in a U.S. corporation.**

We are a Bermuda corporation. Our Memorandum of Association and Bye-laws and the Companies Act 1981 of Bermuda, as amended (the "Companies Act 1981 of Bermuda"), govern our affairs. While many provisions of the Companies Act 1981 of Bermuda resemble provisions of the corporation laws of a number of states in the United States, Bermuda law may not as clearly establish your rights and the fiduciary responsibilities of our directors as do statutes and judicial precedent in some U.S. jurisdictions. In addition, apart from one non-executive director, our directors and officers are not resident in the United States and all or substantially all of our assets are located outside of the United States. As a result, investors may have more difficulty in protecting their interests and enforcing judgments in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a U.S. jurisdiction.

## **Item 4. Information on the Company**

Tsakos Energy Navigation Limited is a leading provider of international seaborne crude oil and petroleum product transportation services. In 2007 it also started to transport liquefied natural gas. It was incorporated in 1993 as an exempted company under the laws of Bermuda under the name Maritime Investment Fund Limited. In 1996, Maritime Investment Fund Limited was renamed MIF Limited. Our common shares were listed in 1993 on the Oslo Stock Exchange (OSE) and the Bermuda Stock Exchange although we de-listed from the OSE in March 2005 due to limited trading. The Company's shares are no longer actively traded on the Bermuda exchange. In July 2001, the Company's name was changed to Tsakos Energy Navigation Limited to enhance our brand recognition in the tanker industry, particularly among charterers. In March 2002, we completed an initial public offering of the common shares in the United States and our common shares began trading on the New York Stock Exchange under the ticker symbol "TNP". Since incorporation, the Company has owned and operated 65 vessels and has sold 20 vessels (of which three had been chartered back and eventually repurchased at the end of their charters. In 2008, one of these, *Olympia*, was sold again after a further one year's trading).

Our principal offices are located at 367 Syngrou Avenue, 175 64 P. Faliro, Athens, Greece. Our telephone number at this address is 011 30 210 9407710. Our website address is [www.tenn.gr](http://www.tenn.gr).

## **Business Overview**

Tsakos Energy Navigation owns a fleet of modern tankers providing world-wide marine transportation services for national, major and other independent oil companies and refiners under long, medium and short-term charters. We believe that we have established a reputation as a safe, cost efficient operator of modern and well-maintained tankers. We also believe that these attributes, together with our strategy of proactively working towards meeting our customers' chartering needs, has contributed to our ability to attract leading charterers as customers and to our success in obtaining charter renewals.

Our technical management is undertaken, by Tsakos Shipping and Trading ("Tsakos Shipping") one of the world's largest independent tanker managers, based on the number of tankers under management.

Tsakos Shipping had a total of 71 operating vessels under management at March 31, 2009 (with a further 16 to be delivered, four of which are vessels under construction for Tsakos Energy Navigation, as of March 31, 2009). This enables Tsakos Shipping to achieve significant economies of scale when procuring supplies and underwriting insurance. These economies of scale, as well as Tsakos Shipping's ability to spread their operating costs over a larger vessel base, have resulted in cost savings to us.



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Tsakos Shipping's established operations have allowed us to manage the growth of our fleet without having to integrate additional resources. The size of our operating fleet increased from 231,103 dwt at inception to approximately 4.9 million dwt at March 31, 2009, with no significant adverse impact on the organization.

We have access to Tsakos Shipping's network offices around the world and a pool of over 2,500 available seafarers, which is supported by Tsakos Shipping's sponsorship of naval academies in Greece, the Philippines, Russia and the Ukraine, and a Tsakos Shipping manning office in Odessa, Ukraine.

As of March 31, 2009, our fleet consisted of the following 46 vessels:

Number of Vessels	Vessel Type
3	VLCC
10	Suezmax
8	Aframax
3	Aframax LR2
7	Panamax LR1
6	Handymax MR2
8	Handysize MR1
1	LNG carrier
<b>Total 46</b>	

Twenty-three of the operating vessels are of ice-class specification. This fleet diversity, which includes a number of sister ships, provides us with the opportunity to be one of the more versatile operators in the market. The current fleet totals approximately 4.9 million dwt, all of which is double-hulled. This compares favorably to the worldwide average of 18% single-hulled dwt as of March 31, 2009. As of March 31, 2009, the average age of the tankers in our current operating fleet was 6.3 years, compared with the industry average of 9.8 years.

In addition to the vessels currently operating in our fleet, we are building an additional four vessels. In the third quarter of 2009, we expect to take delivery of two aframax tankers of DNA design. In the first half of 2010, we expect delivery of a further two aframax tankers of DNA design. The resulting fleet (assuming no sales) would comprise 50 vessels with 5.3 million dwt.

We believe the following factors distinguish us from other public tanker companies:

**Modern, high-quality, fleet.** We own a fleet of modern, high-quality tankers that are designed for enhanced safety and low operating costs. Since inception, we have committed to investments of over \$3.2 billion, including investments of approximately \$2.4 billion in newbuilding constructions, in order to maintain and improve the quality of our fleet. We believe that increasingly stringent environmental regulations and heightened concerns about liability for oil pollution have contributed to a significant demand for our vessels by leading oil companies, oil traders and major government oil entities. Tsakos Shipping, the technical manager of our fleet, has received ISO 14001 certification, based in part upon audits conducted on our vessels.

**Diversified fleet.** Our diversified fleet, which includes VLCC, suezmax, aframax, panamax, handysize and handymax tankers, as well as one LNG carrier, allows us to better serve our customers' international crude oil and petroleum product transportation needs. We have also committed a sizable part of our newbuilding and acquisition program to ice-class vessels. By March 31, 2009, we had 23 ice-class vessels. Additionally, we have entered the LNG market with the delivery of our LNG carrier in 2007.

**Stability throughout industry cycles.** Historically, we have employed a high percentage of our fleet on long and medium-term employment with fixed rates or minimum rates plus profit sharing agreements. We believe this approach has resulted in high utilization rates for our vessels. At the same time, we maintain flexibility in our chartering policy to allow us to take advantage of favorable rate trends through spot market employment and contract of affreightment charters with periodic adjustments. Over the last five years, our overall average fleet utilization rate was 97.1%.



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**Industry recognition.** For over 36 years, the Tsakos Group has maintained relationships with and has achieved acceptance by national, major and other independent oil companies and refiners. Several of the world's major oil companies and traders, including Houston Refining, PDVSA, ExxonMobil, FLOPEC, Shell, BP, Sunoco, Tesoro, Petrobras, Trafigura, Glencore and Neste Oil are among the regular customers of the Tsakos Group and of Tsakos Energy Navigation, in particular.

**Significant leverage from our relationship with Tsakos Shipping.** We believe the expertise, scale and scope of Tsakos Shipping are key components in maintaining low operating costs, efficiency, quality and safety. We leverage Tsakos Shipping's reputation and longstanding relationships with leading charterers to foster charter renewals.

**Our Fleet (as of March 31, 2009):**

Vessel	Year Built	Year Acquired	Charter Type	Expiration of Charter	Hull Type <sup>(8)</sup> (all double hull)	Deadweight Tons
<b>VLCC</b>						
1. <i>Millennium</i>	1998	1998	bareboat charter	September 2013		301,171
2. <i>La Madrina (2)</i>	1994	2004	time charter	April 2011		299,700
3. <i>La Prudencia (2)</i>	1993	2006	time charter	April 2011		298,900
<b>SUEZMAX</b>						
1. <i>Silia T</i>	2002	2002	time charter	October 2011		164,286
2. <i>Decathlon</i>	2002	2002	time charter	October 2009		164,274
3. <i>Pentathlon</i>	2002	2002	time charter	November 2009		164,236
4. <i>Triathlon (1)</i>	2002	2002	time charter	January 2014		164,445
5. <i>Eurochampion 2004 (1)</i>	2005	2005	time charter	November 2010	ice-class 1C	164,608
6. <i>Euronike</i>	2005	2005	time charter	September 2009	ice-class 1C	164,565
7. <i>Archangel</i>	2006	2006	spot		ice-class 1A	163,216
8. <i>Alaska</i>	2006	2006	spot		ice-class 1A	163,250
9. <i>Arctic</i>	2007	2007	spot		ice-class 1A	163,216
10. <i>Antarctic (1)</i>	2007	2007	time charter	October 2010	ice-class 1A	163,216
<b>AFRAMAX</b>						
1. <i>Parthenon (5)</i>	2003	2003	contract of affreightment	September 2009		107,018
2. <i>Marathon (5)</i>	2003	2003	contract of affreightment	September 2009		107,181
3. <i>Opal Queen (4)</i>	2001	2002	contract of affreightment	Evergreen		107,222
4. <i>Vergina II</i>	1991	1996	time charter	July 2009		96,709
5. <i>Proteas (1)</i>	2006	2006	time charter	July 2010	ice-class 1A	117,055
6. <i>Promitheas</i>	2006	2006	spot		ice-class 1A	117,055
7. <i>Propontis (1)</i>	2006	2006	time charter	October 2010	ice-class 1A	117,055
8. <i>Izumo Princess (4)</i>	2007	2007		Evergreen	DNA	105,374

contract of  
affreightment

<i>9. Sakura Princess (1)</i>	2007	2007	time charter	June 2009	DNA	105,365
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Vessel	Year Built	Year Acquired	Charter Type	Expiration of Charter	Hull Type <sup>(8)</sup> (all double hull)	Deadweight Tons
<i>10. Maria Princess</i>	2008	2008	spot		DNA	105,346
<i>11. Nippon Princess</i>	2008	2008	spot		DNA	105,392
<b>PANAMAX</b>						
<i>1. Andes (3)</i>	2003	2003	time charter	November 2011		68,439
<i>2. Maya (3) (6)</i>	2003	2003	time charter	September 2012		68,439
<i>3. Inca (3) (6)</i>	2003	2003	time charter	May 2013		68,439
<i>4. Victory III</i>	1990	1996	spot		ice-class 1C	68,157
<i>5. Hesnes</i>	1990	1996	spot		ice-class 1C	68,157
<i>6. Selecao</i>	2008	2008	time-charter	February 2011		74,296
<i>7. Socrates</i>	2008	2008	time-charter	March 2011		74,327
<b>HANDYMAX</b>						
<i>1. Artemis (1)</i>	2005	2006	time charter	June 2009	ice-class 1A	53,039
<i>2. Afrodite (1)(9)</i>	2005	2006	time charter	May 2009	ice-class 1A	53,082
<i>3. Ariadne (1)</i>	2005	2006	time charter	October 2009	ice-class 1A	53,021
<i>4. Aris (1)(10)</i>	2005	2006	time charter	April 2009	ice-class 1A	53,107
<i>5. Apollon (1)</i>	2005	2006	time charter	September 2009	ice-class 1A	53,149
<i>6. Ajax (1)(10)</i>	2005	2006	time charter	April 2009	ice-class 1A	53,095
<b>HANDYSIZE</b>						
<i>1. Didimon</i>	2005	2005	time charter	March 2010		37,432
<i>2. Arion (2)</i>	2006	2006	time charter	October 2009	ice-class 1A	37,061
<i>3. Delphi</i>	2004	2006	time charter	November 2011		37,432
<i>4. Antares (2)(9)</i>	2006	2006	time charter	May 2009	ice-class 1A	37,061
<i>5. Andromeda (1)</i>	2007	2007	time charter	May 2010	ice-class 1A	37,061
<i>6. Aegeas (1)</i>	2007	2007	time charter	April 2010	ice-class 1A	37,061
<i>7. Byzantion (1)</i>	2007	2007	time charter	May 2010	ice-class 1B	37,275
<i>8. Bosphoros (1)</i>	2007	2007	time charter	August 2010	ice-class 1B	37,275
<b>LNG</b>						
<i>1. Neo Energy (7)</i>	2007	2007	time charter	August 2010	Membrane	85,602
<b>Total Vessels</b>	<b>46</b>				<b>Total Dwt</b>	<b>4,921,862</b>

- (1) The charter rate for these vessels is based on a fixed minimum rate for the Company plus different levels of profit sharing above the minimum rate, determined and settled on a calendar month basis.
- (2) The charter rate for these vessels is based on a fixed minimum rate for the Company plus different levels of profit sharing above the minimum rate, determined and settled on a monthly average basis every six months.
- (3) These vessels are chartered under fixed and variable hire rates. The variable portion of hire is recognized to the extent the amount becomes fixed and determinable at the reporting date. Determination is every six months.



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- (4) Evergreen employment has no specific expiration. These vessels are continuously employed on a market-related formula for each separate voyage until either we or the charterer request cancellation upon 30 days notice.
- (5) Freight is based on a minimum/maximum market-related formula applied to each separate voyage.
- (6) 49% of the holding company of these vessels has been sold to a third party.
- (7) The charterer of this vessel has the option to extend the charter initially to December 31, 2011, and then until December 31, 2012.
- (8) Ice-class classifications are based on ship resistance in brash ice channels with a minimum speed of 5 knots for the following conditions ice-1A: 1m brash ice, ice-1B: 0.8m brash ice, ice-1C: 0.6m brash ice. DNA- design new aframax with shorter length overall allowing greater flexibility in the Caribbean and the United States.
- (9) Upon the expiration of these time charters in mid-May 2009, it is anticipated that each vessel will be employed in the spot market.
- (10) Upon the expiration of these time charters in late-April 2009, it is anticipated that each vessel will be employed in the spot market

**Our newbuildings under construction**

As of March 31, 2009, we have on order and expect to take delivery between 2009 and 2010 of four aframaxes of DNA design currently under construction from Sumitomo Heavy Industries. The newbuildings have a double hull design compliant with all classification requirements and prevailing environmental laws and regulations. Tsakos Shipping has worked closely the Sumitomo yard in Japan in the design of the newbuildings and will continue to work with Sumitomo Heavy Industries during the construction period.

**Our newbuildings under construction as of March 31, 2009:**

Vessel Type	Expected Delivery	Ship Yard	Hull Type (all double-hull)	Deadweight Tons	Purchase Price <sup>(1)</sup> (in millions of U.S. dollars)
<b>AFRAMAX</b>					
<i>1.Hull S-1349</i>	July 17, 2009	Sumitomo Heavy Industries	DNA	105,000	\$ 60.4
<i>2.Hull S-1350</i>	September 15, 2009	Sumitomo Heavy Industries	DNA	105,000	\$ 60.4
<i>3.Hull S-1356</i>	January 8, 2010	Sumitomo Heavy Industries	DNA	105,000	\$ 60.5
<i>4.Hull S-1360</i>	2nd Quarter 2010	Sumitomo Heavy Industries	DNA	105,000	\$ 60.5
<b>Total</b>				<b>420,000</b>	<b>\$ 241.8</b>

(1) Including extra cost agreed as of March 31, 2009

Under the newbuilding contracts, the purchase prices for the ships are subject to deductions for delayed delivery, excessive fuel consumption and failure to meet specified deadweight tonnage requirements. We make progress payments equal to 30% or 40% of the purchase price of each vessel during the period of its construction. The remainder of the purchase price with respect to each vessel will be paid upon delivery of the given vessel. As of March 31, 2009, we had made progress payments of \$47.5 million out of the total purchase price of approximately \$241.8 million for these newbuildings. Of the remaining amount, a further \$109 million will be paid during 2009.

While we intend to expand our fleet, attractive opportunities may arise to sell one or more of our vessels, including the four newbuildings we have on order, and our board of directors may conclude that the sale of one or more vessels, if an attractive opportunity arises, could be in our best interest.

**Table of Contents****Fleet Deployment**

We strive to optimize the financial performance of our fleet by deploying at least two-thirds of our vessels on either time charters or period employment with variable rates. In the past two years, this proportion has been over 85% as we took proactive steps to meet any potential impact of the expanding world fleet on freight rates. The remainder of the fleet is in the spot market. We believe that our fleet deployment strategy provides us with the ability to benefit from increases in tanker rates while at the same time maintaining a measure of stability through cycles in the industry. The following table details the respective employment basis of our fleet during 2008 and 2007 as a percentage of operating days.

<b>Employment Basis</b>	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Time Charter fixed rate	29%	27%
Time Charter variable rate	54%	49%
Period Employment at variable rates	9%	9%
Spot Voyage	8%	15%
<b>Total Net Earnings Days</b>	<b>15,712</b>	<b>14,690</b>

Tankers operating on time charters may be chartered for several months or years whereas tankers operating in the spot market typically are chartered for a single voyage that may last up to several weeks. Vessels on period employment at variable rates related to the market are either in a pool (only in the first quarter of 2007) or operating under contract of affreightment for a specific charterer. Tankers operating in the spot market may generate increased profit margins during improvements in tanker rates, while tankers operating on time charters generally provide more predictable cash flows. Accordingly, we actively monitor macroeconomic trends and governmental rules and regulations that may affect tanker rates in an attempt to optimize the deployment of our fleet. Our fleet has eight tankers currently operating on spot voyages.

**Operations and Ship Management****Our operations**

Management policies regarding our fleet that are formulated by our board of directors are executed by Tsakos Energy Management Limited ( Tsakos Energy Management ) under a management contract. Tsakos Energy Management's duties, which are performed exclusively for our benefit, include overseeing the purchase, sale and chartering of vessels, supervising day-to-day technical management of our vessels and providing strategic, financial, accounting and other services, including investor relations. Our fleet's technical management, including crewing, maintenance and repair, procuring insurance, and voyage operations, has been subcontracted by Tsakos Energy Management to Tsakos Shipping. Tsakos Energy Management also engages Tsakos Shipping to arrange chartering of our vessels. Five vessels were sub-contracted to third-party ship managers during part or all of 2008.

The following chart illustrates the management of our fleet:

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### **Management Contract**

#### **Executive and Commercial Management**

Pursuant to our management agreement with Tsakos Energy Management, our operations are executed and supervised by Tsakos Energy Management, based on the strategy devised by our board of directors and subject to the approval of our board of directors as described below. Pursuant to the management agreement, we pay Tsakos Energy Management monthly management fees for its management of our vessels. Beginning July 1, 2004, we paid Tsakos Energy Management management fees of \$18,000 per owned vessel per month and \$12,500 per chartered-in vessel per month. The management agreement was amended effective January 1, 2007, to raise the monthly fee to \$20,000 per owned vessel and \$15,000 for vessels chartered-in or chartered out on a bareboat basis or under construction, with a prorated adjustment if at each year end the Euro has appreciated by 10% or more against the Dollar since January 1, 2007. In addition, there is an increase each year by a percentage figure reflecting 12 month Euribor, if both parties agree. As a consequence, from January 1, 2008, monthly fees for operating vessels were increased to \$23,000 per owned vessel and \$17,000 for chartered-in vessels or chartered out on a bareboat basis or under construction. Similarly, under the same terms, monthly fees have been increased from January 1, 2009 to \$23,700 and \$17,500, respectively. The management fee starts to accrue for a vessel at the point a newbuilding contract is executed. To help ensure that these fees are competitive with industry standards, our management has periodically made presentations to our board of directors in which the fees paid to Tsakos Energy Management are compared against the publicly available financial information of integrated, self-contained tanker companies. We paid Tsakos Energy Management aggregate management fees of \$12.9 million in 2008. From these amounts, Tsakos Energy Management pays a technical management fee to Tsakos Shipping. For additional information about the management agreement, including the calculation of management fees, see Item 7. Major Shareholders and Related Party Transactions and our consolidated financial statements which are included as Item 18 to this annual report.

*General Administration.* Tsakos Energy Management provides us with general administrative, office and support services necessary for our operations and our fleet, including technical and clerical personnel, communication, accounting, and data processing services.

*Sale and Purchase of Vessels.* Tsakos Energy Management advises our board of directors when opportunities arise to purchase, including through newbuildings, or to sell any vessels. All decisions to purchase or sell vessels require the approval of our board of directors.

Any purchases or sales of vessels approved by our board of directors are arranged and completed by Tsakos Energy Management. This involves the appointment of superintendents to inspect and take delivery of vessels and to monitor compliance with the terms and conditions of the purchase or newbuilding contracts.

In the case of a purchase of a vessel by us, each broker involved will receive commissions from the seller generally at the industry standard rate of one percent of the purchase price, but subject to negotiation. In the case of a sale of a vessel by us, each broker involved will receive a commission from us generally at the industry standard rate of one percent of the sale price, but subject to negotiation. In accordance with the management agreement, Tsakos Energy Management is entitled to charge us for sale and purchase brokerage commission, but to date has not done so.

#### **Technical Management**

Pursuant to a technical management agreement, Tsakos Energy Management employs Tsakos Shipping to manage the day-to-day aspects of vessel operations, including maintenance and repair, provisioning, and crewing of our vessels. We benefit from the economies of scale of having our vessels managed as part of the Tsakos Shipping managed fleet. On occasion, Tsakos Shipping subcontracts the technical management and manning responsibilities of our vessels to third parties. The executive and commercial management of our vessels, however, is not subcontracted to third parties. Tsakos Shipping, which is privately held, is one of the largest independent tanker managers with a total of 71 operating vessels under management, with a further 16 to be delivered, four of which are vessels under construction for us, totaling approximately 9.7 million dwt. Tsakos Shipping currently employs full-time superintendents, technical experts and maritime engineers and have expertise in supervising the construction of new build vessels and inspecting second-hand vessels for purchase and sale, and in fleet maintenance and repair. They have approximately 200 employees engaged in ship management and approximately 2,500 seafaring employees of whom half are employed at sea and the remainder is on leave at any given time. Tsakos Shipping maintains representative offices in several locations covering key areas of the shipping business such as London, New York, Houston, Montevideo, Manila, Beijing, Tokyo, Odessa and Panama. Their principal office is in Athens, Greece. The fleet managed by Tsakos Shipping consists mainly of tankers and feeder container vessels, but also includes dry bulk carriers and other vessels owned by affiliates and unaffiliated third parties.



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Tsakos Energy Management pays Tsakos Shipping a fee per vessel per month for technical management of operating vessels and vessels under construction. This fee was determined by comparison to the rates charged by other major independent vessel managers. We generally pay all monthly operating requirements of our fleet in advance. At December 31, 2008, we had advances to Tsakos Shipping totaling \$2.7 million.

Tsakos Shipping performs the technical management of our vessels under the supervision of Tsakos Energy Management. Tsakos Energy Management approves the appointment of fleet supervisors and oversees the establishment of operating budgets and the review of actual operating expenses against budgeted amounts.

*Chartering.* Our board of directors formulates our chartering strategy for all our vessels and Tsakos Shipping, under the supervision of Tsakos Energy Management, implements the strategy by:

evaluating the short, medium, and long-term opportunities available for each type of vessel;

balancing short, medium, and long-term charters in an effort to achieve optimal results for our fleet; and

positioning such vessels so that, when possible, re-delivery occurs at times when Tsakos Shipping expects advantageous charter rates to be available for future employment.

Tsakos Shipping utilizes the services of various charter brokers to solicit, research, and propose charters for our vessels. The charter brokers' role involves researching and negotiating with different charterers and proposing charters to Tsakos Shipping for cargoes to be shipped in our vessels. Tsakos Shipping negotiates the exact terms and conditions of charters, such as delivery and re-delivery dates and arranges cargo and country exclusions, bunkers, loading and discharging conditions and demurrage. Tsakos Energy Management is required to obtain our approval for charters in excess of six months and is required to obtain the written consent of the administrative agents for the lenders under our secured credit facilities for charters in excess of thirteen months. There are frequently two or more brokers involved in fixing a vessel on a charter. Brokerage fees typically amount to 2.5% of the value of the freight revenue or time charter hire derived from the charters. We pay a chartering commission of 1.25% to Tsakos Shipping for every charter involving our vessels. The total amount we paid for these chartering commissions was \$7.7 million in 2008.

Tsakos Shipping supervises the post fixture business of our vessels, including:

monitoring the daily geographic position of such vessels in order to ensure that the terms and conditions of the charters are fulfilled by us and our charterers;

collection of monies payable to us; and

resolution of disputes through arbitration and legal proceedings.

In addition, Tsakos Shipping appoints superintendents to supervise the loading and discharging of cargoes when necessary.

*Maintenance and Repair.* Each of our vessels is dry-docked once every five years in connection with special surveys and, after the vessel is fifteen years old, the vessel is dry-docked every two and one-half years after a special survey (referred to as an intermediate survey), or as necessary to ensure the safe and efficient operation of such vessels and their compliance with applicable regulations. Tsakos Shipping arranges dry-dockings and repairs under instructions and supervision from Tsakos Energy Management. We believe that the continuous maintenance program we conduct results in a reduction of the time periods during which our vessels are in dry-dock.

Tsakos Shipping routinely employs on each vessel additional crew members whose primary responsibility is the performance of maintenance while the vessel is in operation. Tsakos Energy Management awards and, directly or through Tsakos Shipping, negotiates contracts with shipyards to conduct such maintenance and repair work. They seek competitive tender bids in order to minimize charges to us, subject to the

location of our vessels and any time constraints imposed by a vessel's charter commitments. In addition to dry-dockings, Tsakos Shipping, where necessary, utilizes superintendents to conduct periodic physical inspections of our vessels.

**Crewing and Employees**

We do not employ the personnel to run our business on a day-to-day basis. We outsource substantially all of our executive, commercial and technical management functions.



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Tsakos Shipping arranges employment of captains, officers, engineers and other crew who serve on our vessels. Tsakos Shipping ensures that all seamen have the qualifications and licenses required to comply with international regulations and shipping conventions and that experienced and competent personnel are employed for our vessels.

**Customers**

Several of the world's major oil companies are among our regular customers. The table below shows the approximate percentage of revenues we earned from some of these customers in 2008.

<b>Customer</b>	<b>Year Ended December 31, 2008</b>
Houston Refineries (ex-Lyondell/Citgo)	15%
Petrobras	11%
HMM	11%
NESTE	8%
BP	7%
FLOPEC	7%
Trafigura	7%
Clearlake	5%
Sun	4%
ST Shipping	3%
Vitol	3%
CSSA	2%
Chevron	2%
Methane	2%
PDVSA	2%
Scorpio	2%
Tesoro	2%
Chevroil	1%
Repsol	1%
Standard	1%
Shell	1%

**Regulation**

Our business and the operation of our vessels are materially affected by government regulation in the form of international conventions and national, state and local laws and regulations in force in the jurisdictions in which the vessels operate, as well as in the country or countries of their registration. Because these conventions, laws, and regulations are often revised, we cannot predict the ultimate cost of complying with them or their impact on the resale price and/or the useful lives of our vessels. Additional conventions, laws and regulations may be adopted which could limit our ability to do business or increase the cost of our doing business and which may have a material adverse effect on our operations. Various governmental and quasi-governmental agencies require us to obtain permits, licenses, certificates, and financial assurances with respect to our operations. Subject to the discussion below and to the fact that the kinds of permits, licenses, certificates and financial assurances required for the operations of the vessels we own will depend upon a number of factors, we believe that we have been and will be able to obtain all permits, licenses, certificates and financial assurances material to the conduct of our operations.

We believe that the heightened environmental and quality concerns of classification societies, insurance underwriters, regulators and charterers will impose greater inspection and safety requirements on all vessels in the tanker market and will accelerate the scrapping of older vessels throughout the industry.

*IMO.* The International Maritime Organization ( IMO ) has negotiated international conventions that impose liability for oil pollution in international waters and in a signatory's territorial waters. In March 1992, the IMO adopted amendments to Annex I of the 1993 International Convention for the Prevention of Pollution from Ships ( MARPOL ) which set forth new and upgraded requirements for oil pollution prevention for tankers. These regulations, which became effective in July 1993 (in relation to newbuildings) and in July 1995 (in relation to existing tankers) in many jurisdictions in which our tanker fleet operates, provide that (1) tankers between 25 and 30 years old must be of double-hull construction or of a mid-deck design with double side construction, unless they



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have wing tanks or double-bottom spaces not used for the carriage of oil, which cover at least 30% of the length of the cargo tank section of the hull or are capable of hydrostatically balanced loading that ensures at least the same level of protection against oil spills in the event of collision or stranding, (2) tankers 30 years old or older must be of double-hull construction or mid-deck design with double-side construction, and (3) all tankers will be subject to enhanced inspections. Also, under IMO regulations, a tanker must be of double-hull construction or a mid-deck design with double-side construction or be of another approved design ensuring the same level of protection against oil pollution if that tanker (1) is the subject of a contract for a major conversion or original construction on or after July 6, 1993, (2) commences a major conversion or has its keel laid on or after January 6, 1994, or (3) completes a major conversion or is a newbuilding delivered on or after July 6, 1996. All of the vessels in our fleet are of double hull construction.

Revisions to Annex I were adopted in 2001. The revised regulations, which became effective in September 2002, provide for increased inspection and verification requirements and for a more aggressive phase-out of single-hull oil tankers, in most cases by 2015 or earlier, depending on the age of the vessel and whether the vessel complies with requirements for protectively located segregated ballast tanks. Segregated ballast tanks use ballast water that is completely separate from the cargo oil and oil fuel system. Segregated ballast tanks are currently required by the IMO on crude oil tankers of 20,000 tonnes deadweight constructed after 1982. The changes, which will likely increase the number of tankers that are scrapped, are intended to reduce the likelihood of oil pollution in international waters.

As a result of the oil spill in November 2002 relating to the loss of the oil tanker Prestige, which was owned by a company not affiliated with us, in December 2003 the IMO proposed an amendment to MARPOL to accelerate further the phase out of single-hull tankers from 2015 to 2010 unless the relevant flag state, in a particular case, extends the date to either 2015 or the date on which the ship reaches 25 years of age after the date of its delivery, whichever is earlier. This amendment became effective on April 5, 2005.

On January 1, 2007 Annex I of MARPOL was revised to incorporate all amendments since the MARPOL Convention entered into force in 1983 and clarify the requirements for new tankers and existing tankers.

Regulation 12A, the latest amendment to Annex I of MARPOL, came into force on August 1, 2007 and governs oil fuel tank protection. The requirements apply to oil fuel tanks on all ships with an aggregate capacity of 600 cubic meters and above which are delivered on or after August 1, 2010 and all ships for which shipbuilding contracts are placed on or after August 1, 2007.

In September 1997, the IMO adopted Annex VI to MARPOL to address air pollution from ships. Annex VI came into force on May 19, 2005. It sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. Annex VI has been ratified by some, but not all IMO member states. All vessels subject to Annex VI and built after May 19, 2005 must carry an International Air Pollution Prevention Certificate evidencing compliance with Annex VI. Vessels built before May 19, 2005, must obtain this Certificate by the earlier of the first dry docking after that date or May 19, 2008. Implementing the requirements of Annex VI may require modifications to vessel engines or the addition of post combustion emission controls, or both, as well as the use of lower sulfur fuels. In April 2008, the Marine Environment Protection Committee, or MEPC, of the IMO approved proposed amendments to Annex VI regarding particulate matter, nitrogen oxide and sulfur oxide emissions standards. These amendments were adopted by the MEPC in October 2008 and will enter into force in July 2010. They seek to reduce air pollution from vessels by establishing a series of progressive standards to further limit the sulfur content in fuel oil, which would be phased in through 2020, and by establishing new tiers of nitrogen oxide emission standards for new marine diesel engines, depending on their date of installation. Additionally, more stringent emission standards could apply in coastal areas designated as Emission Control Areas. The United States ratified the amendments in October 2008. We have obtained International Air Pollution Prevention certificates for all of our vessels and believe that maintaining compliance with Annex VI will not have an adverse financial impact on the operation of our vessels.

In 2001, IMO adopted the International Convention on the Control of Harmful Anti-fouling Systems on Ships (the Anti-fouling Convention ) which prohibits the use of organotin compound coatings to prevent the attachment of mollusks and other sea life to the hulls of vessels. The Anti-fouling Convention came into force on September 17, 2008 and applies to vessels constructed prior to January 1, 2003 that have not been dry-dock since that date. By January 1, 2008, the effective date of the Anti-fouling Convention, exteriors of vessels must either be free of the prohibited compounds, or coatings that act as a barrier to the leaching of the prohibited compounds must

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be applied to the vessel exterior. Vessels of over 400 gross tons engaged in international voyages must obtain an International Anti-fouling System Certificate and must undergo a survey before the vessel is put into service or when the anti-fouling systems are altered or replaced. We have obtained Anti-Fouling System Certificates for all of our vessels that are subject to the Anti-Fouling Convention and do not believe that maintaining such certificates will have an adverse financial impact on the operation of our vessels.

In addition, the Company's liquefied natural gas (LNG) carrier (delivered in February 2007) is required to meet IMO requirements for liquefied gas carriers. In order to operate in the navigable waters of the IMO's member states, liquefied gas carriers must have an IMO Certificate of Fitness demonstrating compliance with construction codes for liquefied gas carriers. These codes, and similar regulations in individual member states, address fire and explosion risks posed by the transport of liquefied gases. Collectively, these standards and regulations impose detailed requirements relating to the design and arrangement of cargo tanks, vents, and pipes; construction materials and compatibility; cargo pressure; and temperature control.

Liquefied gas carriers are also subject to international conventions that regulate pollution in international waters and a signatory's territorial waters. Under the IMO regulations, gas carriers that comply with the IMO construction certification requirements are deemed to satisfy the requirements of Annex II of MARPOL applicable to transportation of chemicals at sea, which would otherwise apply to certain liquefied gases. With effect from January 1, 2007, the IMO revised the Annex II regulations that restrict discharges of noxious liquid substances during cleaning or de-ballasting operations. The revisions include significantly lower permitted discharge levels of noxious liquid substances for vessels constructed on or after the effective date, made possible by improvements in vessel technology. These new discharge levels apply to the Company's LNG carrier.

Tsakos Shipping, our technical manager, has been ISO 14001 compliant since April 2000. ISO 14001 requires companies to commit to the prevention of pollution as part of the normal management cycle. Additional or new conventions, laws and regulations may be adopted that could adversely affect our ability to manage our ships.

In addition, the European Union and countries elsewhere have considered stricter technical and operational requirements for tankers and legislation that would affect the liability of tanker owners and operators for oil pollution. In December 2001, the European Union adopted a legislative resolution confirming an accelerated phase-out schedule for single hull tankers in line with the schedule adopted by the IMO in April 2001. Any additional laws and regulations that are adopted could limit our ability to do business or increase our costs. The results of these or potential future environmental regulations could have a material adverse effect on our operations.

Under the current regulations, the vessels of our existing fleet will be able to operate for substantially all of their respective economic lives. However, compliance with the new regulations regarding inspections of all vessels may adversely affect our operations. We cannot at the present time evaluate the likelihood or magnitude of any such adverse effect on our operations due to uncertainty of interpretation of the IMO regulations.

The operation of our vessels is also affected by the requirements set forth in the IMO's International Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM Code) which came into effect in relation to oil tankers in July 1998. The ISM Code requires shipowners, ship managers and bareboat (or demise) charterers to develop and maintain an extensive safety management system that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. The failure of a shipowner, ship manager or bareboat charterer to comply with the ISM Code may subject that party to increased liability, may decrease available insurance coverage for the affected vessels, and may result in a denial of access to, or detention in, some ports. All of our vessels are ISM Code certified.

*OPA 90.* The U.S. Oil Pollution Act of 1990 (OPA 90) established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA 90 affects all owners and operators whose vessels trade to the United States or its territories or possessions or whose vessels operate in United States waters, which include the United States territorial sea and its two hundred nautical mile exclusive economic zone.

Under OPA 90, vessel owners, operators and bareboat charterers are responsible parties and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. Tsakos Shipping and Tsakos Energy Management would not qualify as third parties because they perform under contracts with us. These other damages are defined broadly to include (1) natural resources damages and the costs of assessing them, (2) real and personal property damages, (3) net loss of taxes, royalties, rents, fees and other lost revenues, (4) lost profits or impairment of earning capacity due to



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property or natural resources damage, (5) net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards, and (6) loss of subsistence use of natural resources. As a result of 2006 amendments to OPA 90, the statute now limits the liability of responsible parties for a spill from a double-hulled tanker that is over 3,000 gross tons to the greater of \$1,900 per gross ton or \$16 million (subject to periodic adjustment). These limits of liability would not apply if the incident was proximately caused by violation of applicable United States federal safety, construction or operating regulations or by the responsible party (or its agents or employees or any person acting pursuant to a contractual relationship with the responsible party) or by gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. On September 24, 2008 the United States Coast Guard proposed regulations that would adjust the limits of liability for double-hulled tank vessels to the greater of \$2,000 per gross ton or \$16,900,000. The adjustments will become effective after publication as final regulations. We currently plan to continue to maintain for each of our vessels pollution liability coverage in the amount of \$1 billion per incident. A catastrophic spill could exceed the insurance coverage available, in which case there could be a material adverse effect on us.

Under OPA 90, with some limited exceptions, all newly built or converted tankers operating in United States waters must be built with double-hulls, and existing vessels which do not comply with the double-hull requirement must be phased out over a 25-year period (1990-2015) based on size, age and hull construction. Notwithstanding the phase-out period, OPA 90 currently permits existing single-hull tankers to operate until the year 2015 if their operations within United States waters are limited to discharging at the Louisiana Off-Shore Oil Platform, or off-loading by means of lightering activities within authorized lightering zones more than 60 miles off-shore. Currently, all of our fleet is of double-hull construction.

OPA 90 requires owners and operators of vessels to establish and maintain with the United States Coast Guard evidence of financial responsibility sufficient to meet their potential liabilities under OPA 90. In December 1994, the Coast Guard implemented regulations requiring evidence of financial responsibility in the amount of \$1,500 per gross ton for tankers (with double-hulls), coupling the OPA limitation on liability of \$1,200 per gross ton with the Comprehensive Environmental Response, Compensation, and Liability Act liability limit of \$300 per gross ton. Effective October 17, 2008, the Coast Guard adopted amendments to the financial responsibility regulations to increase the required amount of financial responsibility to \$1,900 per gross ton to reflect the 2006 increases in limits on OPA 90 liability. Evidence of financial responsibility in the increased amounts must be in place by January 15, 2009. Under the regulations, evidence of financial responsibility may be demonstrated by insurance, surety bond, letter of credit, self-insurance, guaranty or other satisfactory evidence. Under OPA 90, an owner or operator of a fleet of tankers is required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the tanker in the fleet having the greatest maximum liability under OPA 90.

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

The Coast Guard's financial responsibility regulations may also be satisfied by evidence of surety bond, guaranty or by self-insurance. Under the self-insurance provisions, the ship owner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility.

OPA 90 specifically permits individual U.S. coastal states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for oil spills. In some cases, states which have enacted such legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws. We intend to comply with all applicable state regulations in the ports where our vessels call.

Owners or operators of tankers operating in United States waters are required to file vessel response plans with the Coast Guard, and their tankers are required to operate in compliance with their Coast Guard approved plans. These response plans must, among other things, (1) address a worst case scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a worst case discharge, (2) describe crew training and drills, and (3) identify a qualified individual with full authority to implement removal actions.

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### **Environmental Regulation**

**U.S. Clean Water Act:** The U.S. Clean Water Act ( CWA ) prohibits the discharge of oil or hazardous substances in navigable waters and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90. Under U.S. Environmental Protection Agency ( EPA ) regulations, vessels were exempt from the requirement to obtain CWA permits for the discharge of ballast water and other substances incidental to normal operation in U.S. ports. However, a United States District Court ruled in March 2005 that the EPA had exceeded its statutory authority in creating this exemption, which has been in place since 1978. On September 18, 2006 the Court ordered the EPA to develop new regulations by September 30, 2008 (later extended to December 19, 2008) to ensure that owners and operators of vessels visiting U.S. ports comply with the CWA and restrict the discharge of invasive species in ballast water, or face penalties. Although the EPA has appealed this decision, it proceeded with the development of the permitting program ordered by the Court. In July 2008, the U.S. Court of Appeals for the Ninth Circuit upheld the 2005 ruling. Under the new rules, which took effect February 6, 2009, we are required to obtain a CWA permit regulating and authorizing such normal discharges if we operate within the three mile territorial waters or inland waters of the United States. This permit, which the EPA has designated as the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, or VGP, incorporates the current U.S. Coast Guard requirements for ballast water management, as well as supplemental ballast water requirements, and includes requirements applicable to 26 specific wastewater streams, such as deck runoff, bilge water and gray water. We do not believe that the costs associated with obtaining such permits and complying with the obligations will have a material impact on our operations.

**The Clean Air Act:** The U.S. Clean Air Act (CAA) requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to CAA vapor control and recovery standards for cleaning fuel tanks and conducting other operations in regulated port areas and emissions standards for so-called Category 3 marine diesel engines operating in U.S. waters. The marine diesel engine emission standards are currently limited to new engines beginning with the 2004 model year. In November 2007, the EPA announced its intention to proceed with development of more stringent standards for emissions of particulate matter, sulfur oxides, and nitrogen oxides and other related provisions for new Category 3 marine diesel engines. The EPA intends to promulgate final standards for Category 3 marine diesel engines on or before December 17, 2009. If these proposals are adopted and apply not only to engines manufactured after the effective date but also to existing marine diesel engines, we may incur costs to install control equipment on our vessels to comply with the new standards. Several states regulate emissions from vessel vapor control and recovery operations under federally-approved State Implementation Plans. In 2007 California adopted limits on particulate matter, sulfur oxides, and nitrogen oxides emissions from the auxiliary diesel engines of ocean-going vessels in waters within approximately 24 miles of the California coast. These rules were struck down by the U.S. Court of Appeals for the Ninth Circuit in February 2008 on the grounds that the CAA preempts them, and in May 2008 an injunction was obtained preventing California from enforcing the rules. California then proposed fuel content regulations that will apply to all vessels sailing within 24 miles of the California coastline and whose itineraries call for them to enter any California ports, terminal facilities, or internal or estuarine waters. The state is also requesting EPA to grant it a waiver under the CAA to enforce the vessel emission standards that were invalidated. The United States requested IMO on March 27, 2009 to designate the area extending 200 miles from the territorial sea baseline adjacent to the Atlantic/Gulf and Pacific coasts and the eight main Hawaiian Islands as Emissions Control Areas under the Annex VI amendments. If the Emissions Control Area is approved by IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by EPA or the states where we operate, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations.

**European Union Initiatives:** In December 2001, in response to the m.t. Erika oil spill in December 1999, the European Union adopted a legislative resolution confirming an accelerated phase-out schedule for single-hull tankers in line with the schedule adopted by the IMO in April 2001. In July 2003, in response to the m.t. Prestige oil spill in November 2002, the European Union adopted legislation that (1) prohibits all single-hull tankers from entering into European Union ports or offshore terminals by 2010; (2) bans all single-hull tankers carrying heavy grades of oil from entering or leaving European Union ports or offshore terminals or anchoring in areas under its jurisdiction; and (3) commencing in 2005, imposes a Condition Assessment Scheme Survey for single-hull tankers older than 15 years of age. Such regulations became effective on October 21, 2003. In September 2005, the European Union adopted legislation to incorporate international standards for ship-source pollution into European

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Community law and to establish penalties for discharge of polluting substances from ships (irrespective of flag). Member States of the European Union are to ensure that illegal discharges of polluting substances, participation in and incitement to carry out such discharges are penalized as criminal offences and that sanctions can be applied against any person, including the master, owner and/or operator of the polluting ship, found to have caused or contributed to ship-source pollution with intent, recklessly or with serious negligence (this is a lower threshold for liability than applied by MARPOL, upon which the ship-source pollution legislation is partly based). In the most serious cases, infringements will be regarded as criminal offences (where sanctions include imprisonment) and will carry fines of up to Euro 1.5 million. The ship-source pollution legislation was to be enacted into the national law of the Member States of the European Union by April 1, 2007. On November 23, 2005 the European Commission published its Third Maritime Safety Package, commonly referred to as the Erika III proposals, and two bills (dealing with the obligation of Member States to exchange information among themselves and to check that vessels comply with international rules, and with the allocation of responsibility in the case of accident) were adopted in March 2007. Additionally, the sinking of the m.t. Prestige has led to the adoption of other environmental regulations by certain European Union Member States. It is impossible to predict what legislation or additional regulations, if any, may be promulgated by the European Union or any other country or authority.

Other Environmental Initiatives: Many countries have ratified and follow the liability scheme adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended ( CLC ), and the International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage of 1971, as amended ( Fund Convention ). The United States is not a party to these conventions. Under these conventions, a vessel's registered owner is strictly liable for pollution damage caused on the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. The liability regime was increased (in limit and scope) in 1992 by the adoption of Protocols to the CLC and Fund Convention which became effective in 1996. The Fund Convention was terminated in 2002 and the Supplementary Fund Protocol entered into force in March 2005. The liability limit in the countries that have ratified the 1992 CLC Protocol is tied to a unit of account which varies according to a basket of currencies. Under an amendment to the Protocol that became effective on November 1, 2003, for vessels of 5,000 to 140,000 gross tons, liability is limited to approximately \$6.68 million plus \$935 for each additional gross ton over 5,000. For vessels of over 140,000 gross tons, liability is limited to approximately \$133 million. As the Convention calculates liability in terms of a basket of currencies, these figures are based on currency exchange rates on April 20, 2008. From May 1998, parties to the 1992 CLC Protocol ceased to be parties to the CLC due to a mechanism established in the 1992 Protocol for compulsory denunciation of the old regime; however, the two regimes will co-exist until the 1992 Protocol has been ratified by all original parties to the CLC. The right to limit liability is forfeited under the CLC where the spill is caused by the owner's actual fault and under the 1992 Protocol where the spill is caused by the owner's intentional or reckless conduct. The 1992 Protocol channels more of the liability to the owner by exempting other groups from this exposure. Vessels trading to states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that convention. We believe that our protection and indemnity insurance will cover the liability under the plan adopted by IMO.

The U.S. National Invasive Species Act ( NISA ) was enacted in 1996 in response to growing reports of harmful organisms being released into U.S. ports through ballast water taken on by ships in foreign ports. Under NISA, the U.S. Coast Guard adopted regulations in July 2004 establishing a national mandatory ballast water management program for all vessels equipped with ballast water tanks that enter or operate in U.S. waters. These regulations require vessels to maintain a specific ballast water management plan. The requirements can be met by performing mid-ocean ballast exchange, by retaining ballast water on board the ship, or by using environmentally sound alternative ballast water management methods approved by the U.S. Coast Guard. However, mid-ocean ballast exchange is mandatory for ships heading to the Great Lakes or Hudson Bay, or vessels engaged in the foreign export of Alaskan North Slope crude oil.) Mid-ocean ballast exchange is the primary method for compliance with the Coast Guard regulations, since holding ballast water can prevent ships from performing cargo operations upon arrival in the U.S., and alternative methods are still under development. Vessels that are unable to conduct mid-ocean ballast exchange due to voyage or safety concerns may discharge minimum amounts of ballast water (in areas other than the Great Lakes and the Hudson River), provided that they comply with record keeping requirements and document the reasons they could not follow the required ballast water management requirements. The Coast Guard has been developing ballast water discharge standards, which could set maximum acceptable discharge limits for invasive species, or lead to requirements for active treatment of ballast water. The U.S. House of Representatives passed a bill in 2008 that amended NISA by prohibiting the discharge of ballast water unless it has been treated with specified methods or acceptable alternatives. Similar bills have been introduced in the U.S. Senate, but we cannot



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predict which bill, if any, will be enacted into law. In the absence of federal standards, some states have enacted legislation or regulations to address invasive species through ballast water and hull cleaning management and permitting requirements. These requirements could increase the costs of operating in state waters.

At the international level, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments in February 2004 (the BWM Convention). The Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. The BWM Convention will not enter into force until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35 percent of the gross tonnage of the world's merchant shipping. As of April 20, 2009 the BWM Convention has been adopted by eighteen states, representing 15.36 percent of world tonnage.

If mid-ocean ballast exchange is made mandatory throughout the United States or at the international level, or if water treatment requirements or options are instituted, the cost of compliance could increase for ocean carriers. Although we do not believe that the costs of compliance with a mandatory mid-ocean ballast exchange would be material, it is difficult to predict the overall impact of such a requirement on our operations.

Although the Kyoto Protocol to the United Nations Framework Convention on Climate Change requires adopting countries to implement national programs to reduce emissions of greenhouse gases, emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol. A new treaty is expected to be adopted at the United Nations climate change conference scheduled for December 2009 in Copenhagen and there is pressure to include shipping in this new treaty. The European Union intends to expand its emissions trading scheme to vessels. The U.S. Congress is also expected to take up climate change legislation this session. On April 17, 2009, the United States EPA Administrator signed a proposed finding that greenhouse gases threaten the public health and safety and that emissions from new motor vehicles and motor vehicle engines contribute to concentrations of these greenhouse gases in the atmosphere. Although the proposal does not extend to vessels and vessel engines, the EPA is also separately considering a petition from the California Attorney General and environmental groups to regulate greenhouse gas emissions from ocean-going vessels under the CAA. The IMO, the EU or individual countries in which we operate could pass climate control legislation or implement other regulatory initiatives to control greenhouse gas emissions from vessels that could require us to make significant financial expenditures or otherwise limit our operations.

### **Classification and inspection**

Our vessels have been certified as being in class by their respective classification societies: Bureau Veritas, Det Norske Veritas, American Bureau of Shipping, Korean Register, Lloyd's Register of Shipping or Nippon Kaiji Kyokai. Every vessel's hull and machinery is classed by a classification society authorized by its country of registry. The classification society certifies that the vessel has been built and maintained in accordance with the rules of such classification society and complies with applicable rules and regulations of the country of registry of the vessel and the international conventions of which that country is a member. Each vessel is inspected by a surveyor of the classification society every year, an annual survey, every two to three years, an intermediate survey, and every four to five years, a special survey. Vessels also may be required, as part of the intermediate survey process, to be dry-docked every 24 to 30 months for inspection of the underwater parts of the vessel and for necessary repair related to such inspection.

In addition to the classification inspections, many of our customers, including the major oil companies, regularly inspect our vessels as a precondition to chartering voyages on these vessels. We believe that our well-maintained, high quality tonnage should provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality of service.

Tsakos Shipping, our technical manager, obtained a document of compliance with the ISO 9000 standards of total quality management. ISO 9000 is a series of international standards for quality systems that includes ISO 9002, the standard most commonly used in the shipping industry. Our technical manager has also completed the implementation of the ISM Code. Our technical manager has obtained documents of compliance for our offices and safety management certificates for our vessels, as required by the IMO. Our technical manager has also received ISO 14001 certification.

### **Risk of loss and insurance**

The operation of any ocean-going vessel carries an inherent risk of catastrophic marine disasters and property losses, including:

collision;



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adverse weather conditions;

fire and explosion;

mechanical failures;

negligence;

war;

terrorism; and

piracy.

In addition, the transportation of crude oil is subject to the risk of crude oil spills, and business interruptions due to political circumstances in foreign countries, hostilities, labor strikes, and boycotts. Tsakos Shipping arranges insurance coverage to protect against most risks involved in the conduct of our business and we maintain environmental damage and pollution insurance coverage. Tsakos Shipping arranges insurance covering the loss of revenue resulting from vessel off-hire time. We believe that our current insurance coverage is adequate to protect against most of the risks involved in the conduct of our business. The terrorist attacks in the United States and various locations abroad and international hostilities have lead to increases in our insurance premium rates and the implementation of special war risk premiums for certain trading routes. See Item 5. Operating and Financial Review and Prospects for a description of how our insurance rates have been affected by recent events.

We have hull and machinery insurance, increased value (total loss or constructive total loss) insurance and loss of hire insurance with Argosy Insurance Company. Each of our ship owning subsidiaries is a named insured under our insurance policies with Argosy. Argosy provides the same full coverage as provided through London and Norwegian underwriters and reinsures its exposure, subject to customary deductibles, in the London, French, Norwegian and U.S. reinsurance markets. We were charged by Argosy aggregate premiums of \$8.3 million in 2008. By placing our insurance through Argosy, we believe that we achieve cost savings over the premiums we would otherwise pay to third party insurers. Argosy reinsures most insurance it underwrites for us with various reinsurers. These reinsurers have credit ratings ranging from BBB to AA.

Our subsidiaries are indemnified for legal liabilities incurred while operating our vessels by protection and indemnity insurance that we maintain through their membership in a P&I club. This protection and indemnity insurance covers legal liabilities and other related expenses of injury or death of crew members and other third parties, loss or damage to cargo, claims arising from collisions with other vessels, damage to other third party property and pollution arising from oil or other substances, including wreck removal. The object of P&I clubs is to provide mutual insurance against liability to third parties incurred by P&I club members in connection with the operation of their vessels entered into the P&I club in accordance with and subject to the rules of the P&I club and the individual member's terms of participation. A member's individual P&I club premium is typically based on the aggregate tonnage of the member's vessels entered into the P&I club according to the risks of insuring the vessels as determined by the P&I club. P&I club claims are paid from the aggregate premiums paid by all members, although members remain subject to calls for additional funds if the aggregate insurance claims made exceed aggregate member premiums collected. P&I clubs enter into reinsurance agreements with other P&I clubs and with third party underwriters as a method of preventing large losses in any year from being assessed directly against members of the P&I club. Currently, applicable P&I club rules provide each of its members with more than \$4 billion of liability coverage except for pollution coverage which is limited to \$1 billion.

Recent world events have led to increases in our insurance premium rates and the implementation of special war risk premiums for certain trading routes. For 2008-2009, our P&I club insurance premiums increased by between 12% and 16% for most of our vessels. Our hull and machinery insurance premiums also increased in most cases by between 7.5% and 12.75%. We have been advised that for 2008-2009 our P&I club insurance premiums will increase, depending on vessel, by between 6% and 11% approximately and our hull and machinery insurance premiums by 23%, even after taking account of reduced vessel values. In addition, war risk coverage for vessels operating in certain geographical areas has doubled, but this type of coverage represents a relatively small portion of our total insurance premiums. P&I, hull and machinery and war risk insurance premiums are accounted for as part of operation expenses in our financial statements. Accordingly, any change in insurance premium rates directly impacts our operating results.



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### **Competition**

We operate in markets that are highly competitive and where no owner currently controls more than 5% of the world tanker fleet. Ownership of tankers is divided among independent tanker owners and national and independent oil companies. Many oil companies and other oil trading companies, the principal charterers of our fleet, also operate their own vessels and transport oil for themselves and third party charterers in direct competition with independent owners and operators. We compete for charters based on price, vessel location, size, age, condition and acceptability of the vessel as well as Tsakos Shipping's reputation as a manager. Currently we compete primarily with owners of tankers in the ULCCs, VLCCs, suezmax, aframax, panamax, handymax and handysize class sizes, and we also compete with owners of LNG carriers.

Although we do not actively trade to a significant extent in Middle East trade routes, disruptions in those routes as a result of international hostilities, including those in Afghanistan and Iraq, and terrorist attacks such as those made against the United States in September 2001 and various international locations since then may affect our business. We may face increased competition if tanker companies that trade in Middle East trade routes seek to employ their vessels in other trade routes in which we actively trade.

Other significant operators of multiple aframax and suezmax tankers in the Atlantic basin that compete with us include Overseas Shipholding Group Inc., Teekay Shipping Corporation and General Maritime Corporation. There are also numerous, smaller tanker operators in the Atlantic basin.

### **Employees**

We have no salaried employees. See Management Contract Crewing and Employees.

### **Properties**

We operate out of Tsakos Energy Management offices in the building also occupied by Tsakos Shipping at Megaron Makedonia, 367 Syngrou Avenue, Athens, Greece.

### **Legal proceedings**

We are involved in litigation from time to time in the ordinary course of business. In our opinion, the litigation in which we are currently involved, individually and in the aggregate, is not material to us.

### **Item 4A. Unresolved Staff Comments**

None.

### **Item 5. Operating and Financial Review and Prospects**

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and the notes to those statements included elsewhere in this Annual Report. This discussion includes forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under Risk Factors and elsewhere in this annual report our actual results may differ materially from those anticipated in these forward-looking statements.

#### **Overview**

As at March 31, 2009, we operated a fleet of 46 modern double-hull tankers providing world-wide marine transportation services for national, major and other independent oil companies and refiners under long, medium and short-term charters and one LNG carrier. Our current fleet consists of three VLCCs, ten suezmaxes, eleven aframaxs, seven panamaxs, six handymaxs, eight handysizes and one LNG carrier. All vessels are owned by our subsidiaries. The charter rates that we obtain for these services are determined in a highly competitive global tanker charter market. We operate our tankers in markets that have historically exhibited both cyclical and seasonal variations in demand and corresponding fluctuations in charter rates. Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere. In addition, unpredictable weather conditions in the winter months tend to disrupt vessel scheduling. The oil price volatility resulting from these factors has historically led to increased oil trading activities. Changes in available tanker capacity have also had a

strong impact on tanker charter markets over the past 20 years.

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### **Results from Operations 2008**

The year 2008 proved to be one of the strongest in the past ten years in terms of crude tanker rates, with significant increases over average rates achieved in 2007. As a result, those operators with crude tankers enjoyed good earnings, achieving marked increases over 2007, especially during the second and third quarters when markets traditionally suffer a seasonal downturn. The tanker fleet saw little or no increases in the number of suezmaxes and VLCCs, while the number of aframaxs and panamaxs increased by less than 10%. However, long-haul transportation of crude continued to increase for much of the year as a result of increased OPEC production, especially from Saudi Arabia, which more than absorbed the impact of the increased number of crude tankers. Increased oil imports into China not only from the Middle East but also from West Africa and Venezuela gave an additional boost to long-haul routes. The number of product carriers increased more significantly which contributed to keeping product carrier rates relatively flat during 2008, as in 2007, although there was some improvement in rates towards the end of the year.

There was no growth in world oil demand. Indeed, demand fell fractionally by 0.4% compared to a 1.1% increase in 2007, much of the decline occurring in the latter part of the year as the international financial crisis developed further into a worldwide economic crisis resulting in a steep decline in the growth of oil demand despite falling oil prices. But even earlier in the year the increasing price of oil was at last having a negative impact on oil demand having been surprisingly price resistant in previous periods. The decline in U.S. demand by nearly 5% especially contributed to the overall decline, having the greatest consumption per capita, although continued growth in developing nations, including China, offset much of the impact of this decline. The combination of lower oil demand yet higher oil production in the first half of the year followed by falling oil prices leading to sharply reduced oil production quotas by OPEC later in the year, inevitably resulted in a growth of crude inventories to exceptionally high levels by the year end.

The US Dollar, the functional currency for many shipping companies, remained weak for much of the year against other major currencies and in particular the Euro against which it suffered a further 7% fall compared to 2007, despite a period of strengthening in the second half of the year. By the end of the year, impacted by the financial crisis and remedial interest rate cuts, the US dollar again started to decline against the Euro negatively impacting those maritime companies which have significant expenditures in Euro. The fall in short and long term interest rates, while being a welcome reduction in financing costs, had a reduced benefit for the many companies that had previously attempted to protect themselves against rising interest rates by fixing rates through hedging interest rate swaps.

Our fleet achieved voyage revenues of \$623.0 million, an increase of 24.5% from \$500.6 million achieved in 2007 due partly to the increase of the average size of the fleet to 44.1 from 41.7. More importantly, the average daily time charter rate per vessel after deducting voyage expenses, increased to \$34,600 compared to \$29,421 in 2007. Voyage expenses had increased, despite a fall in operating days on spot and contract of affreightment voyages, because of higher bunker prices caused by increasing oil prices. Operating expenses increased by 32.7% to \$143.8 million due to the increase in the size of the fleet and an increase in costs mainly due to crew wage increases and the appreciation of the Euro against the US dollar. During 2008, seven vessels underwent dry-docking for survey purposes and considerable expenditure was incurred on routine repairs and maintenance which is expensed immediately.

Depreciation was \$85.5 million in 2008 compared to \$81.6 million in 2007 due to the net addition of vessels. This was offset by the impact of a change in the scrap price, used for estimating the residual value of vessels in the calculation of depreciation, from \$180 per lightweight ton to \$300. The effect of this change in estimation was to reduce depreciation by \$5.3 million in 2008. Management fees totaled \$12.0 million for 2008 compared to \$9.8 million for 2007, an increase of 23.1%, due both to the increase in number of vessels in the fleet and the increase in monthly fees. General and administrative expenses were \$4.6 million during 2008 compared to \$4.4 million during 2007

Capital gains on the sale of one operating vessels were \$34.6 million, compared to the sale of three vessels in 2007 with total gains of \$68.9 million. Operating income increased to \$278.8 million in 2008 from \$249.7 million in 2007, an 11.7% increase. Financing costs increased by 7.1% in 2008 to \$82.9 million. Despite a fall in total loan interest due to reduced interest rates, non-cash negative movements on non-hedging interest rate swaps contributed to the overall increase in finance costs. Net income was \$202.9 million, compared to \$183.2 million in 2007, a 10.8% increase. Diluted income per share increased to \$5.33 in 2008, based on 38.05 million diluted weighted average shares outstanding, to \$4.79 in 2007, based on 38.23 million diluted weighted average shares outstanding.

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Some of the more significant developments for the Company during 2008 were:

the delivery of the two panamax *Selecao* and *Socrates* and the two aframax *Maria Princess* and *Nippon Princess*;

the repurchase of the suezmaxes *Decathlon* and *Pentathlon*, sold five years previously as part of a sale and lease-back deal;

the sale of the aframax *Olympia* with a gain of \$34.6 million;

the dry-docking of *Maya*, *Inca*, *Marathon*, *Victory*, *Parthenon*, *Hesnes* and *Andes* for their mandatory special survey;

the buy-back of 392,400 shares for cancellation and 812,700 shares as Treasury Stock (of which 286,000 were utilized on the vesting of restricted share units), and

the payment to our shareholders a dividend of \$0.90 per common share in April in respect of the fiscal year 2007 and \$0.90 per common share in October, the first dividend with respect to fiscal year 2008. Total cash paid out on dividends amounted to \$67.2 million. The Company operated the following types of vessels during, and at the end of, 2008:

Vessel Type	LNG carrier	VLCC	Suezmax	Aframax	Panamax	Handymax MR2	Handysize MR1	Total Fleet
Average number of vessels	1.0	3.0	10.0	9.4	6.7	6.0	8.0	44.1
Number of vessels at end of year	1.0	3.0	10.0	11.0	7.0	6.0	8.0	46.0
Dwt at end of year (in thousands)	85.6	899.8	1,639.3	1,190.8	490.2	318.5	297.7	4,922
Percentage of total fleet	1.7%	18.3%	33.3%	24.2%	10.0%	6.5%	6.0%	100.0%
Average age, in years, at end of year	2.1	13.7	4.4	4.4	8.0	3.7	2.7	6.1

We believe that the key factors which determined our financial performance in 2008, within the given freight rate environment in which we operated, were:

the diversified aspect of the fleet, including our acquisition in recent years of purpose-built vessels to access ice-bound ports and carry LNG (liquefied natural gas), which allowed us to take advantage of all tanker sectors;

the benefits of the new vessels acquired in recent years in terms of operating efficiencies and desirability on the part of charterers;

our balanced chartering strategy (discussed further below) which ensured a stable cash flow while allowing us to take advantage of the buoyant freight market;

the long-established relationships with our chartering clients and the development of new relationships with renowned oil-majors;



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the continued control over costs by our technical managers despite pressures caused by a weakening dollar and higher operating and fuel costs;

our control over financial costs by negotiating competitive terms with reputable banks, and protecting interest rate levels through swap arrangements;

our ability to manage leverage levels through cash generation and repayment/prepayment of debt;

our ability to reward our shareholders through a dividend policy which is linked directly to the profitability of the Company;

our ability to raise new financing through bank debt at competitive terms despite the current tight credit environment; and

the sale of vessels when attractive opportunities arose.

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We believe that the above factors will also be those that will be behind our future financial performance and will play an especially significant role in the current world economic climate as we proceed through 2009. To these may be added:

a relatively active charter market in comparison to other sectors of the shipping world and compared to historical levels;

the securing of a high level of utilization for our vessels (as at March 31, 2009, 66% of the remaining operational days available for 2009, and 42% for 2010, excluding expected new deliveries, have secured employment);

the continued appetite by oil majors to fix forward on medium to long term charters at economic rates which are still higher than the historical average, although for shorter periods due to the uncertainty caused by the global financial crisis;

the delivery of the four newbuildings that will join the fleet in the second half of 2009 and early 2010; and

the repurchase of our common shares at favorable prices. During the first quarter of 2009, we repurchased 231,100 shares as Treasury Stock under a fixed repurchase plan at a total cost of approximately \$3.8 million.

Looking forward and given lower oil demand levels, high crude inventory levels, the continued lack of clarity over oil production from Iran, Nigeria and Iraq, and continued discussion by the Organization of Petroleum Exporting Countries (OPEC) about cuts in their production levels, low oil prices may continue through 2009, although there is some indication that oil prices may further increase from the low levels seen at the beginning of 2009. Although demand from China, India and other developing countries will continue to have a beneficial impact on transportation requirements for petroleum and its products, the overall decreased demand for oil and the increase in new vessel supply, partly offset by scrapping, suggests strongly that full recovery in oil market conditions will not be expected until the latter part of 2009 and possibly not until 2010.

We expect that 2009 will prove to be a challenging year for the tanker industry. The current economic crisis will have a continuing negative impact on the demand for and transportation of oil. This together with the forecasted increase in the size of the tanker fleet and recent OPEC oil production cuts will contribute to pushing freight rates down. Nevertheless, there are factors which are likely to soften this impact. Firstly, the governments of the world are making a concerted effort to revitalize the world economy. Secondly, the gradually rising level of oil prices will eventually result in a cessation of cuts and possibly a reversal as the oil producing nations seek to increase their cash receipts. One benefit of lower oil prices to date this year has been the employment of vessels for oil storage to take advantage of the oil price contango. The new trading patterns with long-haul requirements we have seen emerge over the past few years will continue to absorb many of the new vessels to be delivered and we would expect that the IMO and European Union regulations relating to the phase-out of single-hull tankers should begin to have a significant compensating impact on the supply/demand balance of tanker availability.

## **Subsequent Events**

On March 19, 2009, our board of directors declared a dividend of \$0.85 cents per share to be paid on April 30, 2009 to shareholders of record on April 24, 2009.

## **General Market Overview World Oil Demand / Supply and Trade**

(Source: ICAP Shipping, London)

The price of crude oil continued to rise sharply in the first half of 2008. From a starting point of \$99 per barrel at the turn of the year, WTI spot prices rose to peak prices above \$145/barrel in July. The rise in prices caused OPEC to continue increasing crude oil production in the first seven months of the year, driving tanker earnings to the highest levels witnessed since late 2004 in most markets. After July, oil prices declined sharply as a result of the deterioration in the world economy, the collapse of financial markets, declining oil demand and bearish market sentiment. The fall in prices and in demand and rising oil inventories led OPEC to reduce crude oil production and exports resulting in lower, albeit historically high, tanker earnings in the second half of the year. In the first quarter of 2009 oil prices stabilized in a trading range of \$35-\$55/barrel as OPEC continued to reduce production levels.

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According to the International Energy Agency (IEA), world oil demand fell by 0.37 million bpd in 2008, the first fall in global demand since 1985. Large falls in demand were recorded in the developed OECD countries. North American demand fell by as much as 1.24 million bpd, while OECD Europe's demand and the OECD Pacific region's demand fell by 0.09 million bpd and 0.32 million bpd respectively. However, these falls were partially offset by further increases in demand in developing countries. Chinese demand grew by a further 0.32 million bpd, while Indian demand grew by 0.13 million bpd. Demand growth of 0.25 million bpd was recorded in Latin America and Middle Eastern demand grew by 0.42 million bpd.

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Although oil demand declined for the year as a whole, the supply of oil including biofuels, condensates and oil from non-conventional sources increased from 85.55 million bpd to 86.46 million bpd. The largest increase came from Middle Eastern crude oil production which increased by 0.86 million bpd according to IEA data. There were also gains in Brazilian production, African production, production in the Asia Pacific region, in biofuels and OPEC natural gas liquids output. Some of these gains were offset by declines in production in the North Sea, North America and the Former Soviet Union.

Seaborne crude oil trade is estimated to have increased by 260,000 bpd in 2008 or 0.7%, however crude oil tonne-miles trade (international trade x distance travelled) is estimated to have increased by a more substantial 2.7% due to reductions in short-haul exports from the North Sea, Mexico, Venezuela and Russia and an increase in long-haul exports from the Middle East.

Major developments in crude oil trade included a 290,000 bpd year-on-year increase in Chinese crude oil imports, including an increase in imports from the Middle East of 330,000 bpd. U.S. imports declined by 3% overall, however most of the decline was in short-haul and medium-haul trade from Mexico, Venezuela, Africa and Europe, while long-haul imports from the Arabian Gulf increased by 11%, leading to an overall increase in tonne-miles. Crude oil imports into Japan and Korea meanwhile remained virtually unchanged from 2007 levels on average.

Geographical mismatches between volumes and types of products produced by oil refiners and demanded by end users continued to drive demand for products tankers in 2008. Price differentials between product prices in various regions meant that there were substantial unusual arbitrage trades that increased products tanker demand.

Imports of gasoline, distillates, jet fuel and fuel oil into the United States, the world largest products importing country, declined from 2007's level of 2.0 million barrels to 1.7 million barrels. However, U.S. refiners found it profitable to produce distillates for export and surging exports to Latin America and Europe contributed to very firm rates for MR products carriers. Total U.S. petroleum products exports increased by 16% from 1.2 million bpd to 1.4 million bpd in 2008. Continued economic growth in Latin America as well as shortages of natural gas and hydro-electric power led to strong demand for middle distillate imports. Meanwhile Europe's structural surplus of gasoline and deficit in gasoil, together with reductions in the permissible levels of sulfur in European distillate fuels, meant that owners of MR products carriers were able to benefit from westbound Transatlantic gasoline trade and return eastbound Transatlantic gasoil trade, increasing their daily returns.

China also imported additional volumes of refined products in 2008 in order to ensure adequate supplies in advance of the expected increase in demand for transportation fuels around the time of the Olympic Games. China's refined products imports increased by 15% in 2008 to 38.8 million tonnes from 33.8 million tonnes in 2007, with monthly imports in the middle of the year at the highest levels since 2004. Other long-haul products trades increased demand for LR1 and LR2 products carriers. These trades included imports of gasoil and jet fuel into Europe from the Far East and reverse flows of naphtha from Europe back to the Far East.

Looking forward, the IEA in its March 2009 report forecast a decrease in global oil demand of 1.25 million bpd in 2009 as a result of the severe downturn in the world economy. The reduction in oil demand has led to reduced OPEC crude oil production and reduced refinery runs, which in turn means lower demand for crude oil and lower production of refined petroleum products. Tanker freight rates have found some support from demand for tankers to store oil as a result of the contango in oil prices, but it is expected that resumption in oil demand growth and an increase in OPEC crude oil production will be needed in order to create a sustained rise in tanker demand.

Although the timing of the return of oil demand growth remains uncertain at present, it is expected that over the medium term continued economic development in emerging economies will drive further oil demand growth. In its March 2009 Annual Energy Outlook the U.S. Energy Information Administration has projected in its Reference Case that global hydrocarbon liquids consumption will increase by 2.77 million bpd between 2010 and 2015, with an increase of 2.88 million bpd in developing non-OECD countries and a small decrease of 0.10 million bpd in the developed OECD countries.

### *World Tanker Fleet*

In 2008 the supply side of the market continued to be shaped by the impending phase-out of non double hulled tankers under IMO regulations contained in MARPOL Annex 1. Many owners decided to remove their non double

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hulled vessels from the tanker trading fleet in spite of the strong freight market and the fact that most of the remaining non double hulled vessels would be permitted to continue trading until 2010 under the IMO regulations. Even after 2010 some vessels may be able to secure Port State and Flag State exemptions to continue trading but an increasing number of countries have indicated that they will not allow these vessels to call at their ports and terminals from 2010 and fewer charterers are willing to hire non double hulled tankers to transport their cargoes. The spillage of over 10,000 tonnes of crude oil from the single hulled Hebei Spirit off the Korean coastline in December 2007 has accelerated the move towards double hulled tonnage in Asian markets where the majority of the remaining non double hulled vessels now trade.

In the VLCC sector, 8% of the vessels that comprised the active trading fleet at the start of 2008 are believed to have been removed from service throughout the year, with the majority removed for conversion to dry bulk carriers prior to the collapse in dry bulk carrier freight rates. Other vessels were removed for conversion to floating production, storage and offloading vessels (FPSO) and floating storage units (FSU) while a handful of vessels were sold for demolition. In the Suezmax and Aframax sectors 4% of vessels were removed from the active trading fleet for conversion projects or demolition. In the Panamax (60,000 – 80,000 dwt) tanker segment 5% of the fleet was removed from service but in the medium range (MR) products tanker (45,000 – 55,000 dwt) sector less than 1% of the fleet was sold for demolition or converted because of the modern double hulled profile of the fleet. Strong fleet growth in the MR products tanker sector was offset to some extent by low fleet growth in the accompanying Handy tanker sector (27,000 – 45,000 dwt) where some 3% of vessels were removed from service – mainly for demolition.

Fleet growth varied considerably from sector to sector. In the VLCC segment there was slight negative fleet growth of 0.2% as the 41 removals outweighed the 40 vessels that were delivered. In the Suezmax sector just 14 vessels were delivered, compared to the anticipated 21 vessels meaning that fleet growth of just one vessel or 0.3% was recorded. Other fleet sectors saw stronger growth. The 68 deliveries in the Aframax sector resulted in net fleet growth of 40 vessels or 5.5%. In the Panamax sector there was net fleet growth of 23 vessels or 7.6% and in the MR and Handy tanker sectors there was net fleet growth of 118 and 24 vessels respectively or 20.7% and 2.7%.

The tanker fleet between 27,000 and 445,000 dwt grew by some 4% in 2008 to 371 million dwt at the start of 2009. 2008 witnessed further heavy ordering particularly in the large tanker segments, where over 100 VLCCs and over 50 Suezmaxes were ordered at shipyards. As of 1<sup>st</sup> January there was a substantial orderbook for new vessels to be delivered between 2009 and 2013, comprising a total of 162 million dwt for these size ranges or 44% of the existing fleet. This compares to a non double hulled fleet of 58 million dwt. The forward orderbook means that we expect to see strong fleet growth in several market sectors between 2009 and 2011 in spite of the removal of more non double hulled tonnage. However, the outlook for fleet growth has become less certain because of the difficulty that shipowners are now facing in securing financing for payments to shipyards and also due to some uncertainty about the financial stability of some of the shipyards themselves. There is therefore significant potential for greater than usual delays to newbuilding delivery schedules and the possibility of the postponement or cancellation of some tanker newbuilding orders. These developments may alleviate some of the supply side pressure on the tanker market over the next 3 years.

*Newbuildings*

	Newbuilding Tanker Prices at January Each Year						
	2002	2003	2004	2005	2006	2007	2008
VLCC	\$ 70m	\$ 66m	\$ 79m	\$ 118m	\$ 122m	\$ 130m	\$ 147m
Suezmax	\$ 47m	\$ 45m	\$ 53m	\$ 74m	\$ 73m	\$ 81m	\$ 91m
Aframax (Uncoated)	\$ 36m	\$ 36m	\$ 45m	\$ 62m	\$ 61m	\$ 66m	\$ 73m
47k dwt (Epoxy Coated)	\$ 26m	\$ 28m	\$ 34m	\$ 41m	\$ 44m	\$ 47m	\$ 53m

Tanker newbuilding prices continued to increase in the first seven months of 2008. Indicative newbuilding prices at South Korean yards for VLCCs rose to \$165 million by July while Suezmax prices had risen to \$97.5 million by that time. The second quarter of the year saw particularly heavy ordering of VLCCs with most vessels being contracted at prices in the \$150-\$160 million price range. There were also several Suezmax contracts placed during the second quarter of the year at prices reported to be around the \$95 million level.

Indicative Aframax newbuilding prices rose to as high as \$81 million at South Korean shipyards by the third quarter of the year but contracting was not as active in this market segment as in the larger sizes. Newbuilding prices for MR products carriers in South Korea were more stable with indicative prices rising to a peak of \$54 million in the third quarter. There was continued interest in ordering MR products carriers in the first three quarters of the year with most vessels contracted at prices reported to be \$52-\$53 million at shipyards in South Korea.

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Strong freight markets in both the tanker and dry cargo sectors, heavy ordering of VLCCs, Suezmaxes and dry bulk carriers, together with long forward orderbooks and rising steel prices all contributed to the further increases in newbuilding prices in the first three quarters of the year. However the downturn in freight markets since then and the lack of available finance have led to the virtual cessation of newbuilding contracting. Although there is a distinct lack of actual contracts to set benchmark values, estimated newbuilding contract prices for Suezmaxes in South Korea at the end of the first quarter of 2009 had declined by 22% from the highs seen in the third quarter, while indicative newbuilding contract prices for Aframaxes had fallen by 17% from the peak levels.

*Secondhand Prices*

	5-Year-Old Tanker Prices at January Each Year						
	2002	2003	2004	2005	2006	2007	2008
VLCC	\$ 58m	\$ 60m	\$ 72m	\$ 110m	\$ 120m	\$ 117m	\$ 138m
Suezmax	\$ 39m	\$ 43m	\$ 50m	\$ 75m	\$ 76m	\$ 80m	\$ 96m
Aframax (Uncoated)	\$ 30m	\$ 34m	\$ 39m	\$ 59m	\$ 65m	\$ 65m	\$ 73m
47k dwt (Epoxy Coated)	\$ 21m	\$ 23m	\$ 30m	\$ 40m	\$ 47m	\$ 48m	\$ 52m

Secondhand prices also continued to rise during the first three quarters of 2008. Indicative prices for 5-year old VLCCs rose to as high as \$165 million, while equivalent prices for Suezmaxes and Aframaxes rose to \$104 million and \$79 million in the third quarter, respectively. Indicative prices for 5-year old MR products tankers rose to \$54 million. However, the actual volume of sales of modern double hulled tonnage was limited. In the VLCC sector most sale and purchase activity surrounded sales of single hulled vessels for conversion projects with just a handful of recorded sales of modern VLCCs. Since September, tanker secondhand sale and purchase activity has been even more restricted. However indicative prices for 5-year old Suezmaxes and Aframaxes have each declined by some 40% from the peak values.

*Earnings*

Spot market earnings rose very sharply in the large tanker segments in 2008, while spot market earnings for MR products carriers increased in spite of strong fleet growth and a downturn in U.S. products imports.

*VLCC*

Benchmark VLCC spot market earnings in 2008 were over twice as high as those seen in 2007 as a result of sharp increases in OPEC crude oil production, negative fleet growth, and growth in long-haul crude oil trade into China and the United States. In addition Iran's use of VLCCs for crude oil storage in the second quarter of the year absorbed tonnage and contributed to the rise in the market. There was also an increase in demand for double hulled tonnage as some Far Eastern charterers reduced their use of single hulled vessels following the Hebei Spirit incident. Following the incident there was more bullish market sentiment among owners of double hulled tonnage which also contributed to the market's rise.

Falling oil demand, poorer refining margins leading to reduced demand for crude oil from refiners and sharp reductions in OPEC crude oil production meant that earnings in the fourth quarter of the year were lower. Earnings have fallen even further in the first quarter of 2009 to levels comparable with the annual average earnings seen in 2007. The reduction in demand for VLCCs to transport cargoes has, however, been partially offset by strong demand for vessels to store crude oil as a result of the contango in crude oil prices. As many as 40 vessels or 8% of the trading fleet has been involved in storage employment in the first quarter of 2009.

*Suezmax*

Freight rates in the Suezmax market also rose very strongly in 2008, with earnings on benchmark routes increasing by 85% from the levels seen in 2007. Suezmaxes benefited from many of the same factors that drove VLCC earnings to very high levels, including increased OPEC production and very low fleet growth. Increased exports from the Turkish port of Ceyhan due to the stabilization of flows of crude oil via the pipeline from Iraq's northern oil fields; and due to increased exports of Azeri crude oil up until August, also increased demand for Suezmax tankers in the Mediterranean. Demand for Suezmaxes was also bolstered by further rises in Brazilian crude oil production. Port workers' strikes and delays in the Mediterranean and Turkish Straits also contributed to the strength of the market in 2008.

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Benchmark spot market earnings for Suezmaxes also declined in the first quarter of 2009 to levels comparable with the 2007 annual average level as OPEC production and demand for crude oil from refiners declined. Some Suezmax tankers have been employed in storing crude oil cargoes but not to the same extent that has been seen in the VLCC sector. However, further increases in Brazilian production and higher levels of crude exports from the former Soviet countries via the Black Sea and Mediterranean than in the last few months of 2008 have partially offset declines in Suezmax demand elsewhere.

*Aframax*

Freight rates for Aframaxes increased very strongly in 2008, although not to quite the same extent as in the VLCC and Suezmax sectors. Benchmark spot market earnings were nevertheless 58% higher than in 2007. Earnings in the North Sea, Baltic and Mediterranean markets rose particularly strongly (rising by 85%, 66% and 63%, respectively). The increases in earnings in the Caribbean and in the AG-Far East markets, while substantial, were not quite so dramatic at 48% and 37%, respectively.

While the Aframax sector also benefited from the increase in OPEC crude oil production and rising exports of Azeri crude oil from Ceyhan from January to August, there was further growth in the fleet of 5.5% and a decline in oil production in some traditional Aframax loading areas such as the North Sea and Mexico. Strikes at Mediterranean ports and delays in transiting the Turkish Straits also led to rises in Aframax earnings in 2008. Aframax earnings declined in the first quarter of 2009, with benchmark average earnings some 53% lower than the average level seen in 2008.

*Products Carriers*

Benchmark spot market earnings for MR Products carriers increased by 7% in 2008. The products carrier market was faced with declining imports into the United States and strong fleet growth, nevertheless strong growth in U.S. products exports to Latin America and Europe and strong Chinese import requirements in order to boost stocks ahead of the Olympic Games in August 2008 helped to support the market. Regional products type mismatches and arbitrage opportunities led to short-term surges in products tanker demand for both medium range products carriers and long range vessels which increased earnings levels. As is the case with the other sectors of the tanker market, earnings for products carriers have fallen back in the first quarter of 2009, declining by some 39% from the average levels seen in 2008.

**Chartering Strategy**

We typically charter our vessels to third parties in any of three basic types of charter. First are voyage charters or spot voyages, under which a shipowner is paid freight on the basis of moving cargo from a loading port to a discharging port at a given rate per ton or other unit of cargo. Port charges, bunkers and other voyage expenses (in addition to normal vessel operating expenses) are the responsibility of the shipowner.

Second are time charters, under which a shipowner is paid hire on a per day basis for a given period of time. Normal vessel operating expenses, such as maintenance and repair, crew wages and insurance premiums, are incurred by the shipowner, while voyage expenses, including bunkers and port charges, are the responsibility of the charterer. The time charterer decides the destination and types of cargoes to be transported, subject to the terms of the charter. Time charters can be for periods of time ranging from one or two months to more than three years. The agreed hire may be for a fixed daily rate throughout the period or may be at a guaranteed minimum fixed daily rate plus a share of a determined daily rate above the minimum, based on a given variable charter index or on a decision by an independent brokers' panel for a defined period. Many of our charters have been renewed on this time charter with profit share basis over the past two years. Time charters can also be evergreen, which means that they automatically renew for successive terms unless the shipowner or the charterer gives notice to the other party to terminate the charter.

Third are bareboat charters under which the shipowner is paid a fixed amount of hire for a given period of time. The charterer is responsible for substantially all the costs of operating the vessel including voyage expenses, vessel operating expenses and technical and commercial management. Longer-term time charters and bareboat charters are sometimes known as period charters.

We also enter into contracts of affreightment which are contracts for multiple employments that provide for periodic adjustments, within prescribed ranges, to the charter rates. At the beginning of 2007 two of our vessels also operated within a pool of similar vessels whereby all income (less voyage expenses) is earned on a market basis and shared between pool participants on the basis of a formula which takes into account the vessel's age, size and technical features. None of our vessels have operated in a pool since January, 2007.

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Our chartering strategy continues to be one of fixing the greater portion of our fleet on medium to long-term employment in order to secure a stable income flow, but one which also ensures a satisfactory return. This strategy has enabled the Company to level the effects of the cyclical nature of the tanker industry, achieving almost optimal utilization of the fleet. In order to capitalize on possible upturns in rates, we have chartered out several of its vessels on a market basis. As at March 31, 2009, we have 38 of our 46 vessels managed on time charter or other form of period employment, ensuring that at least 66% of 2009 availability and 42% of 2010 is already fixed.

Our Board of Directors, through its Chartering Committee, formulates our chartering strategy and our commercial manager Tsakos Energy Management implements this strategy through the technical manager, Tsakos Shipping. They evaluate the opportunities for each type of vessel, taking into account the strategic preference for medium and long-term charters and ensure optimal positioning to take account of redelivery opportunities at advantageous rates.

The cooperation with Tsakos Shipping enables us to take advantage of the long-established relationships they have built with many of the world's major oil companies and refiners over 36 years of existence and high quality commercial and technical service. Tsakos Shipping manages our vessels of the Company plus another 25 operating vessels, mostly container and dry cargo vessels, but also some single and double hull tankers. Apart from the customer relations, we are also able to take advantage of the inherent economies of scale associated with a large fleet manager and its commitment to contain running costs without jeopardizing the vessels' operations. Tsakos Shipping provides top grade officers and crew for our vessels and first class superintendent engineers and port captains to ensure that the vessels are in prime condition.

## **Critical Accounting Estimates**

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles. Our significant accounting policies are described in Note 1 of the attached consolidated financial statements. The application of such policies may require management to make estimates and assumptions. We believe that the following are the more critical accounting estimates used in the preparation of our consolidated financial statements that involve a higher degree of judgment and could have a significant impact on our future consolidated results of operations and financial position:

**Revenue recognition.** Our vessels are employed under a variety of charter contracts, including time, bareboat and voyage charters, contracts of affreightment and, until January 2007, pool arrangements. Time and bareboat charter revenues are recorded over the term of the charter as the service is provided. Revenues from voyage charters on the spot market or under contract of affreightment are recognized on the proportional performance method using the discharge to discharge basis. Vessel voyage and operating expenses and charter hire expense are accounted for in the period incurred on an accrual basis. Vessel voyage and operating expenses of vessels operating under a tanker pool are aggregated by the pool manager and net operating revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed upon formula. As at the reporting date, revenues from variable hire arrangements are recognized to the extent the amounts are fixed and determinable at that date.

**Depreciation.** We depreciate our vessels on a straight-line basis over their estimated useful lives, after considering their estimated residual values, based on the assumed value of the scrap steel available for recycling after demolition, calculated at \$300 per lightweight ton since January 1, 2008 (previously calculated at \$180 per lightweight ton). The impact of the increase in the scrap price used in the estimation of residual values was to reduce the depreciation charge for 2008 by \$5.3 million. We revised our estimate of scrap prices, as prices in the past five years reached historically high levels, significantly in excess of \$300. In the latter part of 2008 prices fell to \$250 and have since returned to over \$300. While we expect the level of scrap prices over the near future to be relatively flat due to the economic crisis and an anticipated high amount of scrapping within the shipping industry as a whole, we also expect commodity prices to start to rise again as soon as the crisis shows signs of abating. Given the historical volatility of scrap prices, management will monitor prices going forward and where a distinctive trend is observed over a given length of time, management may consider revising the scrap price accordingly. In assessing the useful lives of vessels, we have adopted the industry-wide accepted practice of assuming a vessel has a useful life of 25 years (40 years for the LNG carrier), given that all classification society rules have been adhered to concerning survey certification and statutory regulations are followed.



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**Impairment.** The carrying value of the Company's vessels includes the original cost of the vessels plus capitalized expenses since acquisition relating to improvements and upgrading of the vessel, less accumulated depreciation. Carrying value also includes the unamortized portion of deferred special survey and dry-docking costs. The carrying value of vessels usually differs from the fair market value applicable to any vessel, as market values fluctuate continuously depending on the market supply and demand conditions for vessels, as determined primarily by prevailing freight rates and newbuilding costs.

In order to identify indicators of impairment, test for recoverability of each vessel's carrying value and if necessary, measure the required impairment charges, management regularly compares each vessel's carrying amount with the average of its fair market values as provided by two independent and reputable brokers. In the event that an indicator of impairment exists because a vessel's carrying value is in excess of its fair market value, management estimates the undiscounted future cash flows to be generated by each of the Company's vessels in order to assess the recoverability of the vessel's carrying value. These estimates are based on historical industry freight rate averages for each category of vessel taking into account the age, specifications and likely trading pattern of each vessel and the likely condition and operating costs of each vessel. Economic forecasts of world growth and inflation are also taken into account. Such estimations are inevitably subjective and actual freight rates may be volatile. As a consequence, estimations may differ considerably from actual results.

The estimations also take into account new regulations regarding the permissible trading of tankers depending on their structure and age. As a consequence of new European Union regulations effective from October 2003, the IMO adopted new regulations in December 2003 regarding early phase out of non-double hull tankers. Since April 2007, the Company has owned only double-hulled vessels.

While management, therefore, is of the opinion that the assumptions it has used in assessing whether there are grounds for impairment are justifiable and reasonable, the possibility remains that conditions in future periods may vary significantly from current assumptions, which may result in a material impairment loss. If the current economic crisis continues to have a negative impact on oil demand over an extended period of time, the possibility will increase that both the market value of the older vessels of our fleet and the future cash flow they are likely to earn over their remaining lives will be less than their carrying value and an impairment loss will occur. Management performs tests the value and future cash flows for the possibility of impairment on a quarterly basis.

In the event that the undiscounted future cash flows do not exceed a vessel's carrying value, an impairment charge is required, and the vessel's carrying value is written down to the fair market value as determined above. As vessel values are also volatile, the actual market value of a vessel may differ significantly from estimated values within a short period of time.

**Allowance for doubtful accounts.** Revenue is based on contracted charter parties and although our business is with customers whom we believe to be of the highest standard, there is always the possibility of dispute over terms and payment of freight and demurrage. In particular, disagreements may arise as to the responsibility for lost time and demurrage revenue due to the Company as a result. As such, we periodically assess the recoverability of amounts outstanding and we estimate a provision if there is a possibility of non-recoverability. Although we believe our provisions to be based on fair judgment at the time of their creation, it is possible that an amount under dispute is not ultimately recovered and the estimated provision for doubtful recoverability is inadequate.

**Amortization of deferred charges.** In accordance with Classification Society requirements, a special survey is performed on our vessels every five years. A further intermediate survey takes place in between special surveys, depending on the age of the vessel, generally every 5 years for vessels aged up to 10 years and every 2.5 years thereafter. In most cases a dry-docking is necessary with work undertaken to bring the vessel up to the condition required for the vessel to be given its classification certificate. The costs include the yard charges for labor, materials and services, possible new equipment and parts where required, plus part of the participating crew costs incurred during the survey period. We defer these charges and amortize them over the period up to the vessel's next scheduled dry-docking.

**Fair value of financial instruments.** Management reviews the fair values of financial assets and liabilities included in the balance sheet on a quarterly basis as part of the process of preparing financial statements. The carrying amounts of financial assets and accounts payable are considered to approximate their respective fair values due to the short maturity of these instruments. The fair value of long-term bank loans with variable interest rates approximate the recorded values, generally due to their variable interest rates. The present value of the future cash flows of the portion of any long-term bank loan with a fixed interest rate is estimated and compared to its carrying amount. The fair value of the investments equates to the amounts that would be received by the Company in the event of sale of those investments, and any shortfall in from carrying value is treated as an impairment of the value

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of that investment. The fair value of the interest rate swap agreements held by the Company are determined through Level 2 of the fair value hierarchy as defined in FAS 157 Fair Value Measurements and are derived principally from or corroborated by observable market data, interest rates, yield curves and other items that allow value to be determined.

**Recent Accounting Pronouncements**

On December 4, 2007, the FASB issued Statement 141(R), Business Combinations and Statement 160, Non-controlling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51. These new standards will significantly change the accounting for and reporting of business combination transactions and non-controlling (minority) interests in consolidated financial statements. Statement 141(R) and Statement 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. Statement 141(R) replaces Statement 141 Business Combinations, and establishes several new principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed any non-controlling interest in the acquiree and the goodwill acquired. Due to the prospective application requirement, SFAS 141R did not impact our consolidated statement of financial position, results of operations or cash flows.

Statement 160 establishes new accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. It is effective for the Company beginning January 1, 2009, and is required to be applied prospectively as of the beginning of the fiscal year in which it initially applied, except for the presentation and disclosure requirements, which must be applied retrospectively for all periods presented. The Company does not believe that the adoption of Statement 160 will have a material impact on its earnings and financial position.

In March 2008, the FASB issued Statement 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. Statement 161 amends and expands the disclosure requirements of FASB Statement 133 with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial performance and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the impact of the adoption of Statement 161 on its consolidated financial statements and footnote disclosures.

In May 2008, the FASB issued FAS 162, The Hierarchy of Generally Accepted Accounting Principles. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This statement is effective 60 days following the SEC's approval of the PCAOB amendment to AU Section 411. The Company does not expect that the adoption of FAS 162 will have a significant impact.

**Basis of Presentation and General Information**

*Voyage revenues.* Revenues are generated from freight billings and time charters. Time and bareboat charter revenues are recorded over the term of the charter as the service is provided. Revenues from voyage charters on the spot market or under contract of affreightment are recognized on the proportional performance method using the discharge to discharge basis. Net operating revenues of vessels operating under a tanker pool are calculated on a time charter equivalent basis and are allocated to the pool participants according to an agreed upon formula. Unearned revenue represents cash received prior to the year end and is related to revenue applicable to periods after December 31 of each year.

Time Charter Equivalent (TCE) allows vessel operators to compare the revenues of vessels that are on voyage charters with those on time charters. For vessels on voyage charters, we calculate TCE by taking revenues earned on the voyage and deducting the voyage costs and dividing by the actual number of net earning days, which does not take into account off-hire days. For vessels on bareboat charters, for which we do not incur either voyage or operating costs, we calculate TCE by taking revenues earned on the charter and adding a representative amount for the vessels' operating expenses. TCE differs from average daily revenue earned in that TCE is based on revenues before commissions and does not take into account off-hire days.

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*Commissions.* We pay commissions on all chartering arrangements to Tsakos Shipping, as our broker, and to any other broker we employ. Each of these commissions generally amounts to 1.25% of the daily charter hire or lump sum amount payable under the charter. In addition, on some trade routes, we may pay the charterer an address commission ranging from 1.25% to 3.75% of the daily charter hire or lump sum amount payable under the charter. These commissions, as well as changes in prevailing charter rates, will cause our commission expenses to fluctuate from period to period.

*Voyage expenses.* Voyage expenses include all our costs, other than vessel operating expenses, that are related to a voyage, including port charges, canal dues and bunker fuel costs.

*Charter hire expense.* We hire certain vessels from third-party owners or operators for a contracted period and rate in order to charter the vessels to our customers. These vessels may be hired when an appropriate market opportunity arises or as part of a sale and lease back transaction. During 2008, we hired two vessels (*Cape Baker* and *Cape Balboa*), which had been hired as part of sale and leaseback transactions until their repurchase under the same agreements in the fourth quarter of 2008, as described in the accompanying consolidated financial statements. As of December 31, 2008, the Company had no vessel under hire from a third-party.

*Vessel operating expenses.* These expenses consist primarily of manning, hull and machinery insurance, P&I insurance, repairs and maintenance and stores and lubricant costs.

*Management fees.* These are the fixed fees we pay to Tsakos Energy Management under our management agreement with them. As of July 1, 2004, all vessels had a management fee of \$18,000 per month, except for chartered-in vessels, where the fee decreased to \$12,500 per month. The management agreement was amended effective January 1, 2007, to raise the monthly fee to \$20,000 per owned vessel and \$15,000 for vessels chartered-in or chartered out on a bareboat basis, and \$15,000 for vessels under construction. Additionally, according to the same amendments, from January 1, 2008, there is a prorated adjustment if at beginning of the year the Euro has appreciated by 10% or more against the U.S. Dollar since January 1, 2007, and an increase each year by a percentage figure reflecting 12 month Euribor, if both parties agree. As a consequence, from January 1, 2008, monthly fees for operating vessels were increased to \$23,000 per owned vessel and \$17,000 for chartered-in vessels or chartered out on a bareboat basis or vessels under construction. Under the same terms, the monthly fees have been increased to \$23,700 and \$17,500, respectively, effective January 1, 2009.

*Depreciation.* We depreciate our vessels on a straight-line basis over their estimated useful lives, after considering their estimated scrap values, calculated at \$300 per lightweight ton. In assessing the useful lives of vessels, we have estimated them to be 25 years (40 years for the LNG carrier), which is in line with the industry wide accepted practice, assuming that all classification society rules have been adhered to concerning survey certification and statutory regulations are followed. Useful life is ultimately dependent on customer demand and if customers were to reject our vessels, either because of new regulations or internal specifications, then the useful life of the vessel will require revision.

*Amortization of deferred charges.* We amortize the costs of dry-docking and special surveys of each of our ships over the period up to the ship's next scheduled dry-docking (generally every 5 years for vessels aged up to 10 years and every 2.5 years thereafter). These charges are part of the normal costs we incur in connection with the operation of our fleet.

*Impairment loss.* An impairment loss for an asset held for use should be recognized when indicators of impairment exist and when the estimate of undiscounted cash flows, expected to be generated by the use of the asset is less than its carrying amount (the vessel's net book value plus any unamortized deferred dry-docking charges). Measurement of the impairment loss is based on the fair value of the asset as provided by third parties. In this respect, management reviews regularly the carrying amount of the vessels in connection with the estimated recoverable amount for each of the Company's vessels. There were no impairment losses in the years 2003 to 2008.

As at December 31, 2008 the market value of our fleet was approximately \$2.8 billion, based on valuations received from two independent and reputable brokers. On the basis of these valuations and future cash flow tests, we determined that no impairment of the carrying value of any vessel, including older vessels, was required. Given the continuing and deepening economic crisis and the lack of sale and purchase transactions since December 31, 2008, we believe that the values provided as at that date are no longer applicable and may have fallen further to a level which may not be readily determinable given the absence of market information.

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*General and administrative expenses.* These expenses consist primarily of professional fees, office supplies, investor relations, advertising costs, directors' liability insurance, and reimbursement of our directors' and officers' travel-related expenses.

*Insurance claim proceeds.* In the event of an incident involving one of our vessels, where the repair costs or loss of hire is insurable, we immediately initiate an insurance claim and account for such claim when it is determined that recovery of such costs or loss of hire is probable and collectibility is reasonably assured within the terms of the relevant policy. Depending on the complexity of the claim, we would generally expect to receive the proceeds from claims within a twelve month period. During 2008, we received approximately \$10.8 million in proceeds from hull and machinery and loss of hire claims arising from incidents with or damage incurred on our vessels. Such settlements were generally received as credit-notes from our insurers, Argosy Insurance Company Limited, and used as a set off against insurance premiums due to that company. Within the consolidated statements of cash flows therefore, these proceeds are included in decreases in receivables and in decreases in accounts payable. There is no material impact on reported earnings arising from these settlements.

**Financial Analysis**

*(Percentage changes are based on the full numbers in the accompanying consolidated financial statements)*

**Year ended December 31, 2008 versus year ended December 31, 2007****Voyage revenues**

Revenue from vessels was \$623.0 million during the year ended December 31, 2008 compared to \$500.6 million during the year ended December 31, 2007, a 24.5% increase partly resulting from an increase in the number of vessels to an average of 44.1 in 2008 from an average of 41.7 in 2007. More importantly, the average time charter equivalent rate per vessel achieved for the year 2008 was \$34,600 per day compared to \$29,421 for the previous year. During the course of 2008, two panamax tankers and two aframax tankers were newly-delivered to us. One vessel was sold. The fleet had 97.3% employment compared to 96.6% in the previous year, mainly because dry-docking activity for surveys and vessel upgrade was higher in 2007.

**Commissions**

Commissions during 2008 amounted to \$23.0 million, or 3.7% of revenue from vessels compared to 3.6% in the prior year in which commissions totaled \$18.0 million.

**Voyage expenses**

Voyage expenses include all our costs, other than vessel operating expenses and commissions that are related to a voyage, including port charges, agents' fees, canal dues and bunker (fuel) costs. Voyage expenses were \$83.1 million during 2008 compared to \$72.1 million during the prior year, a 15.2% increase, despite the fact that the total operating days on spot charter and contract of affreightment totaled only 2,712 days in 2008 compared to 3,526 days in 2007. Although voyage expenses are highly dependent on the voyage patterns followed, much of the increase can be explained partly by the average cost of bunkers (fuel), which accounted for 72% of total voyage expenses in 2008, increasing by over 45% from 2007 to 2008 due to further significant increases in the price of oil during 2008. Part of the increase may also be explained by the consumption of fuel by those vessels voyaging to and from dry-dock yards, the costs of which are borne by the Company even if the vessel is on time-charter. In addition, there was higher dry-dock activity in 2008, and also an extensive repositioning voyage by the LNG carrier which incurred significant bunker expense. Port expenses in total were the same as the previous year, but in relation to the number of days on spot and contract of affreightment, also effectively increased over the prior year. Again, much of this was due to the dry-dock activity, most agent expenses being expensed, and the repositioning of the LNG carrier, as well as increased Continental activity where port services tend to be relatively expensive and payable in Euro.

**Charter hire expense**

Charter hire expense was \$13.5 million for 2008 and \$15.3 million for 2007. The charter hire expense relates primarily to the two vessels, *Cape Baker* and *Cape Balboa*, which were time chartered throughout 2007 and until their repurchase by us in October and November 2008, respectively.



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### **Vessel operating expenses**

Vessel operating expenses include crew costs, maintenance, repairs, spares, stores, lubricants, insurance and sundry expenses such as tonnage tax, registration fees and communication costs. Total operating costs were \$143.8 million during 2008 compared to \$108.4 million during 2007, an increase of 32.7% due to the increase in the size of the fleet and an increase of costs.

Operating expenses per ship per day for the fleet increased to \$9,450 for 2008 from \$7,669 in 2007, a 23.2% increase. This increase was primarily due to significant increases in crew costs due to pay increases and because of the 7.3% appreciation of the Euro during 2008 which also primarily affected crew costs. Also, advantage was taken of the dry-dockings of vessels during 2008 to undertake delayed routine repairs and replacements, the costs of which were necessarily expensed as they were not part of the cost of dry-dockings.

### **Depreciation**

Depreciation was \$85.5 million during 2008 compared to \$81.6 million during 2007, an increase of 4.8%, due to the addition of four new, mostly high-value vessels offset by the sale of one older vessel, the aframax Olympia and our decision to increase the residual value of the vessel when calculating depreciation. We depreciate our vessels on a straight-line basis over their estimated useful lives, after considering their estimated residual values, based on the assumed value of the scrap steel available for recycling after demolition. Previously this was calculated at \$180 per lightweight ton. As from January 1, 2008, the assumed value of scrap steel for the purpose of estimating the residual values of vessels is calculated at \$300 per lightweight ton. We have taken this decision as steel prices and related scrap values had increased substantially over the past five years and reached historically high levels significantly in excess of \$300 per lightweight ton, although more recently prices have fallen back to approximately \$300 due to the credit crisis. The impact of the increase in the scrap price used in the estimation of residual values was a reduction in depreciation expense in 2008 of approximately \$5.3 million. In assessing the useful lives of vessels, we have adopted the industry-wide accepted practice of assuming a vessel has a useful life of 25 years (40 years for the LNG carrier), given that all classification society rules have been adhered to concerning survey certification and statutory regulations are followed.

### **Amortization**

We amortize the cost of dry-dockings related to classification society surveys over the period to the next dry-docking, and this amortization is included as part of the normal costs we incur in connection with the operation of our vessels. During 2008, amortization of deferred dry-docking charges was \$5.3 million compared to \$3.2 million during 2007, an increase of 64.2%. The increase was mainly due to the heavy program of dry-dockings occurring throughout 2008 and because the dry-dockings in 2007 mostly took place in the second half of the year.

### **Management fees**

Management fees are primarily the fixed fees per vessel we pay to Tsakos Energy Management Limited under the management agreement. The fee pays for services that cover both the management of the individual vessels and of the Company as a whole. The management agreement had been amended effective January 1, 2007, to raise the monthly fee to \$20,000 per owned vessel and \$15,000 for vessels chartered in or chartered out on a bareboat basis and for vessels under construction. Additionally, according to the same amendments, from January 1, 2008, there is a prorated adjustment if at beginning of the year the Euro has appreciated by 10% or more against the U.S. Dollar since January 1, 2007, and an increase each year by a percentage figure reflecting 12 month Euribor, if both parties agree. As a consequence, from January 1, 2008, the monthly fees for operating vessels were increased to \$23,000 per owned vessel and \$17,000 for chartered in vessels and vessels on bareboat charter and for vessels under construction. In accordance with the terms of the same agreement, monthly fees have been increased to \$23,700 and \$17,500 respectively from January 1, 2009. During 2008, the newly delivered *Socrates* and *Selecao* and the repurchased *Decathlon* and *Pentathlon* have been put under third-party ship managers. The LNG carrier was also under third-party management for both 2007 and 2008. Also six more vessels had their crewing operations managed by a third-party ship manager for both years.

Management fees totaled \$12.0 million for 2008 compared to \$9.8 million for 2007, an increase of 23.1%, due both to the increase in number of vessels in the fleet and the increase in monthly fees.

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### **General and administrative expenses**

General and administrative expenses consist primarily of professional fees, office supplies, advertising costs, directors' liability insurance, directors' fees and reimbursement of our directors' and officers' travel-related expenses. General and administrative expenses were \$4.6 million during 2008 compared to \$4.4 million during 2007, an increase of 5.6 % due mainly to increases in advertising expenses.

Total general and administrative expenses plus management fees paid to Tsakos Energy Management Limited represent the overhead of the Company. On a per vessel basis, daily overhead costs were \$1,031 in 2008 compared to \$930 in 2007, mainly due to the increase in management fees. If the incentive award and stock compensation expense described below are taken into account, the 2008 daily overhead cost per vessel is \$1,514 compared to \$1,565 for 2007.

### **Management incentive award**

In accordance with the management agreement between us and Tsakos Energy Management and as approved by our board of directors, \$4.75 million is to be paid in 2009 to Tsakos Energy Management due to our success during 2008 in achieving a return of 23.7% on opening equity for 2008. In the previous year, an award of \$4.0 million was approved for achieving a 24.2% target.

### **Stock compensation expense**

In March 2007, 580,000 restricted share units ( RSUs ) were issued to directors, officers and staff of the commercial and technical managers and of the vessels, 50% of which vested on December 31, 2008 and the remaining 50% will vest on December 31, 2010. In addition, 20,000 RSUs which had been issued to the non-executive directors vested on June 1, 2007. A further 4,650 RSUs were issued on June 1, 2007 to the non-executive directors which vested on June 1, 2008. An additional 1,000 RSUs were issued on June 1, 2007 to one non-executive director, which vested immediately. The 2008 compensation expense of \$3.0 million represents the combined amortization. In 2007, an amount of \$5.7 million was amortized. The reduction in compensation expense is mainly due to the fact that two-thirds of the RSUs were issued to staff of the commercial and technical managers who are considered as non-employees and, therefore, amortization is based on the share price on vesting with quarterly adjustments until vesting. As the share price fell in the latter part of 2008, the amortization charge fell accordingly.

### **Amortization of the deferred gain on the sale of vessels.**

We sold two suezmaxes in a sale and leaseback transaction during 2003. The total gain of \$15.8 million was deferred and is being amortized over the five year minimum charter period to late 2008. The amortization of this gain amounted to \$0.6 million in 2008 compared to \$3.2 million for 2007. In March 2008, the decision was made to re-acquire the vessels at which point any further amortization ceased and the remaining unamortized gain ultimately set against the purchase price of the vessels which were repurchased in the fourth quarter of 2008.

### **Gain on sale of vessels**

During 2008, we sold the Aframax tanker *Olympia* for net sales proceeds of \$62.1 million resulting in a gain of approximately \$34.6 million. In 2007, the Company sold the Aframax tankers *Maria Tsakos* and *Athens 2004* together for a total of \$122.1 million, resulting in a combined gain of \$61.8 million, and the Panamax *Bregen* was also sold for \$22.9 million resulting in a gain of \$6.4 million. Further sundry capital gains amounted to \$0.7 million.

### **Operating income**

Income from vessel operations was \$278.8 million during 2008 versus \$249.7 million during 2007, an 11.7% increase.

### **Interest and finance costs, net**

Interest and finance costs, net were \$82.9 million for 2008 compared to \$77.4 million for 2007, a 7.1% increase. Loan interest, including payment of swap interest, decreased to \$70.2 million from \$77.0 million, an 8.8% decrease. Total weighted average bank loans outstanding were approximately \$1,417 million for 2008 compared to \$1,365 million for 2007. The average loan financing cost in 2008, including the impact of swap interest, was 4.96% compared to 5.64% for 2007.





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There was a net negative movement of \$15.5 million in the fair value (mark-to-market) of the non-hedging interest rate swaps in 2008 compared to a negative \$7.8 million for 2007.

Capitalized interest in 2008 was \$4.3 million compared to \$8.9 million in the previous year. The decline is due primarily to the decrease in the number of vessels under construction, with four newbuildings delivered in 2008, leaving only four to be delivered over the following fifteen months.

Amortization of loan expenses was \$0.9 million in 2008 and in 2007. Other loan charges, including commitment fees amounted to \$0.6 million in 2008 and in 2007.

### **Interest and investment income**

For 2008, interest and investment income amounting to \$8.4 million related to bank deposits, while for 2007, \$13.3 million related to bank deposits and gain on disposal of investments amounting to \$4.2 million. Also in 2008, although the average cash balances were higher, this was offset by lower interest rates on deposits.

### **Minority interest**

The amount earned by the minority (49%) interest in the shareholding of the subsidiary which owns the owning companies of the vessels *Maya* and *Inca* was \$1.1 million in 2008 compared to \$3.4 million in 2007. The reduction is due to the fall in net income generated by the two vessels caused by time lost in 2008 on dry-dockings for repair and special survey purposes.

### **Net income**

As a result of the foregoing, net income for 2008 was \$202.9 million, or \$5.33 per diluted share versus \$183.2 million or \$4.79 per diluted share for 2007.

## ***Year ended December 31, 2007 versus year ended December 31, 2006***

### **Voyage revenues**

Revenue from vessels was \$500.6 million during the year ended December 31, 2007 compared to \$427.7 million during the year ended December 31, 2006, a 17.1% increase primarily resulting from an increase in the number of vessels to an average of 47.1 in 2007 from an average of 33.8 in 2006. The average time charter equivalent rate per vessel achieved for the year 2007 was \$29,421 per day compared to \$30,154 for the previous year. During the course of 2007, one LNG carrier, two ice-class suezmax tankers, two aframax tankers and four ice-class handysize product carriers were newly-delivered to the Company. Three vessels were sold. The fleet had 96.6% employment compared to 97.4% in the previous year, mainly because dry-docking activity was higher in 2007.

### **Commissions**

Commissions during 2007 amounted to \$18.0 million, or 3.6% of revenue from vessels, a similar percentage to the prior year in which commissions totaled \$15.4 million.

### **Voyage expenses**

Voyage expenses include all our costs, other than vessel operating expenses and commissions that are related to a voyage, including port charges, agents fees, canal dues and bunker (fuel) costs. Voyage expenses were \$72.1 million during 2007 compared to \$69.1 million during the prior year, a 4.4% increase, despite the fact that the total operating days on spot charter and contract of affreightment totaled only 3,526 days in 2007 compared to 5,559 days in 2006. Although voyage expenses are highly dependent on the voyage patterns followed, much of the increase can be explained by the average cost of bunkers (fuel), which accounts for 64% of total voyage expenses in 2007, increasing by over 70% from 2006 to 2007 due to further significant increases in the price of oil during 2007. Port expenses also increased over the prior year.

### **Charter hire expense**

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Charter hire expense was \$15.3 million for 2007 and \$24.5 million for 2006. During 2007 and 2006, two vessels, *Cape Baker* and *Cape Balboa*, were time chartered in throughout the entire year, while *Olympia* was also chartered in throughout 2006 until its re-purchase in January 2007.

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### **Vessel operating expenses**

Vessel operating expenses include crew costs, maintenance, repairs, spares, stores, lubricants, insurance and sundry expenses such as tonnage tax, registration fees and communication costs. Total operating costs were \$108.4 million during 2007 compared to \$ 76.1 million during 2006, an increase of 42.4% due to the increase in the size of the fleet and an increase of costs.

Operating expenses per ship per day for the fleet increased to \$7,669 for 2007 from \$6,979 in 2006, a 10% increase. This increase was primarily due to significant increases in crew costs due to pay increases and because of the 10% appreciation of the Euro during 2007 which also primarily affected crew costs. Also, advantage was taken of the dry-dockings of the older VLCCs and other vessels during 2007 to undertake delayed routine repairs and replacements, the costs of which were necessarily expensed as they were not part of the cost of dry-dockings.

### **Depreciation**

Depreciation was \$81.6 million during 2007 compared to \$59.1 million during 2006, an increase of 38.1%, due to the addition of nine new, mostly high-value vessels offset by the sale of three older vessels, the aframax *Maria Tsakos* and *Athens 2004*, and the panamax *Bregen*.

### **Amortization**

We amortize the cost of dry-docking and special surveys over the period to the next dry-docking, and this amortization is included as part of the normal costs we incur in connection with the operation of our vessels. During 2007, amortization of deferred dry-docking charges was \$3.2 million as compared to \$4.9 million during 2006, a decrease of 33.8%. The decrease was mainly due to the sale of three vessels in 2007 on which there were still balances of unamortized deferred dry-docking charges which were included in determination of gains on sale and because the dry-dockings in 2007 mostly took place in the second half of the year.

### **Management fees**

Management fees are the fixed fees per vessel we pay to Tsakos Energy Management under a management agreement between the companies. During 2007, we paid Tsakos Energy Management fixed monthly fees per vessel under the management agreement. The monthly fee during 2007 was \$20,000 and in 2006 was \$18,000 for all vessels except the chartered-in vessels, where the fee was \$15,000 and \$12,500 per month, respectively. The fee pays for services that cover both the management of the individual vessels and of the Company as a whole. Management fees totaled \$9.8 million for 2007 compared to \$7.1 million for 2006, an increase of 37.4%, due both to the increase in number of vessels in the fleet and the increase in monthly fees.

### **General and administrative expenses**

General and administrative expenses consist primarily of professional fees, office supplies, advertising costs, directors' liability insurance, directors' fees and reimbursement of our directors' and officers' travel-related expenses. General and administrative expenses were \$4.4 million during 2007 compared to \$3.5 million during 2006, an increase of 24.8% due mainly to increases in audit fees.

Total general and administrative expenses plus management fees paid to Tsakos Energy Management represents our overhead. On a per vessel basis, daily overhead costs were \$930 in 2007 compared to \$860 in 2006, mainly due to the increase in audit fees. If the incentive award and stock compensation expense described below are taken into account, the 2007 daily overhead cost per vessel is \$1,565 compared to \$1,162 for 2006.

### **Management incentive award**

In accordance with the management agreement between us and Tsakos Energy Management and as approved by our board of directors, \$4.0 million was paid in April 2008 to Tsakos Energy Management due to our success during 2007 in achieving a return of 24.2% on opening equity for 2007. In the previous year, an award of \$3.5 million was achieved for exceeding the 25% target.

### **Stock compensation expense**

In March 2007, officers and staff of the commercial and technical managers and of the vessels were issued 580,000 RSUs, 50% of which vested on December 31, 2008 and the remaining 50% will vest on December 31, 2010. On June 1, 2006, 20,000 RSUs had been issued to be shared between the non-executive directors. These RSUs



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vested on June 1, 2007. A further 4,650 RSUs were issued on June 1, 2007 to the non-executive directors which vest on June 1, 2008. An additional 1,000 RSUs were issued on June 1, 2007 to one non-executive director, which vested immediately. The compensation expense of \$5.7 million represents the combined amortization. In 2006, an amount of \$0.2 million was amortized and included in General and Administrative expenses. The 2006 amortization has been reclassified to be shown separately as Stock compensation expense.

### **Amortization of the deferred gain on the sale of vessels**

We sold two suezmaxes in a sale and leaseback transaction during 2003. The total gain of \$15.8 million was deferred and is being amortized over the five year minimum charter period to late 2008. The amortization of this gain amounted to \$3.2 million for both 2007 and 2006. In the fourth quarter of 2008, both vessels will be re-acquired by us in accordance with the related repurchase option which has been recently exercised.

### **Gain on sale of vessels**

During 2007, we sold the aframax tankers *Maria Tsakos* and *Athens 2004* to the same buyer for a total of \$122.1 million, resulting in a combined gain of \$61.8 million, and the panamax *Bregen* was also sold for \$22.9 million resulting in a gain of \$6.4 million. Further sundry capital gains amounted to \$0.7 million. In 2006, the Company sold three operating tankers for gains totaling \$38.0 million.

### **Operating income**

Income from vessel operations was \$249.7 million during 2007 versus \$205.2 million during 2006, a 21.7% increase.

### **Gain on sale of shares in subsidiary**

During the fourth quarter 2006, we sold to FLOPEC of Ecuador 49% of the shares of the holding company of the two vessel-owning companies which hold the panamax vessels *Maya* and *Inca*. The sale resulted in recognition of a gain of \$25.3 million. There were no sales of shares in subsidiaries during 2007.

### **Interest and finance costs, net**

Interest and finance costs, net were \$77.4 million for 2007 compared to \$42.5 million for 2006, an 82.1% increase. Loan interest, after the receipt of swap interest, increased to \$77.0 million from \$54.7 million, a 40.9% increase. Total weighted average bank loans outstanding were approximately \$1,365 million for 2007 compared to \$933 million for 2006. The average loan financing cost in 2007, considering the impact of swap interest, was 5.60% compared to 5.59% for 2007.

There was a net negative movement of \$7.8 million in the fair value (mark-to-market) of the non-hedging interest rate swaps in 2007 compared to a positive \$2.6 million for 2006.

Capitalized interest in 2007 was \$8.9 million compared to \$12.5 million in the previous year. The decline is due primarily to the decrease in the number of vessels under construction, nine newbuildings being delivered in 2007, leaving only eight to be delivered over the following two years.

Amortization of loan expenses was \$0.9 million in 2007 and \$1.5 million in 2006. Other loan charges, including commitment fees were \$0.6 million in 2007 and \$1.4 million in 2006.

### **Interest and investment income**

Interest and investment income derived from bank deposits and investments, including the net positive changes in the market values of the investments and net gains on disposal of investments, was \$13.3 million for 2007 as compared to \$7.2 million for 2006. The increase is mainly due to the increase in the value of investments and to the increase in the amount of cash balances.

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### Minority interest

The amount earned by the minority (49%) interest in the shareholding of the subsidiary which owns the owning companies of the vessels *Maya* and *Inca* was \$3.4 million in 2007 compared to \$0.2 million in 2006. The sale of the shares took place in mid-December 2006.

### Net income

As a result of the foregoing, net income for 2007 was \$183.2 million, or \$4.79 per diluted share versus \$196.4 million or \$5.15 per diluted share for 2006.

### Liquidity and Capital Resources

Our liquidity requirements relate to servicing our debt, funding the equity portion of investments in vessels, funding working capital and controlling fluctuations in cash flow. Net cash flow generated by operations is our main source of liquidity. Apart from the possibility of securing further equity, additional sources of cash include proceeds from asset sales and borrowings, although all borrowing arrangements to date have specifically related to the acquisition of vessels.

We believe, given our current cash holdings (approximately \$340 million at March 31, 2009) and the number of vessels we have on time charter, that even if there is a further major and sustained downturn in market conditions, our financial resources, including the cash expected to be generated within the year, will be sufficient to meet our liquidity needs through January 1, 2010, taking into account our existing capital commitments and debt service requirements.

Working capital (non-restricted net current assets) amounted to approximately \$173.7 million at December 31, 2008 compared to \$136.9 million at December 31, 2007. Current assets increased to \$370.8 million at December 31, 2008 from \$276.1 million at December 31, 2007 mainly due to the increase in the cash balances to \$312.2 million at December 31, 2008 from \$181.4 million at December 31, 2007. In addition, in the consolidated balance sheets for the years ended December 31, 2008 and 2007, we have reclassified the long-term portion of financial instruments previously recorded within current liabilities, which had the effect of decreasing current liabilities at December 31, 2007 by \$27.0 million. Current liabilities increased to \$189.5 million at December 31, 2008 from \$132.2 million due mainly to increases in the current portion of long-term debt by approximately \$47 million. More significantly, the current portion of the negative valuation on interest rate swaps increased by approximately \$14 million as forward interest fell.

Net cash provided by operating activities was \$274.1 million during 2008 compared to \$190.6 million in the previous year, a 43.8% increase. The increase is mainly due to the increase in revenue generated by operations and lower gain on sale of vessels which is excluded from operating activities. Expenditure for dry-dockings is deducted from cash generated by operating activities. Total expenditure during 2008 on dry-dockings amounted to \$11.4 million compared to \$9.7 million in 2007. In 2008, dry-docking work was performed on *Maya*, *Inca*, *Marathon*, *Victory III*, *Hesnes*, *Parthenon* and *Andes*. In 2007, dry-docking work was performed on the *Silia T.*, *Triathlon*, *La Prudencia* and *La Madrina*.

Net cash used in investing activities was \$164.6 million for the year 2008, compared to \$375.6 million for 2007. During 2008, the Company took delivery of two panamaxs, *Socrates* and *Selecao* and two aframaxs *Nippon Princess* and *Maria Princess*, and repurchased the suezmaxes *Decathlon* and *Pentathlon* (ex *Cape Baker* and *Cape Balboa*). Total payments for the above deliveries including capitalized expenses on vessels that performed dry-docking amounted to \$223.3 million. In 2007, we took delivery of and paid the final installments on the LNG carrier *Neo Energy*, the two ice-class suezmaxes *Arctic* and *Antarctic*, the two aframaxs *Izumo Princess* and *Sakura Princess* and the four product carriers *Aegeas*, *Andromeda*, *Byzantion* and *Bosporos*. Total payments, including the cost of upgrading the *Vergina II* to double-hull, amounted to \$421.2 million. Installments amounting to \$3.5 million were also paid on vessels which are under construction compared to \$111.1 million paid in 2007. At December 31, 2008, we had four vessels on order. The anticipated payment schedule on these vessels as of December 31, 2008, which is subject to change for delays or advanced work, is as follows (in \$ millions):

Contractual Obligations	Prior to				Total
	2008	2008	2009	2010	
Quarter 1				85.3	
Quarter 2					
Quarter 3			103.1		
Quarter 4			5.9		
<b>Total Year</b>	<b>47.5</b>	<b>0</b>	<b>109.0</b>	<b>85.3</b>	<b>241.8</b>



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In 2008, net sale proceeds from the sale of the aframax tanker *Olympia* in the first quarter of 2008 amounted to \$62.1 million. In 2007, the Company sold the panamax *Bregen* and the aframax *Maria Tsakos* and *Athens 2004*, and net sale proceeds amounted to \$142.4 million. In 2007, the Company acquired shares in a private U.S. company under development for an amount of \$1.0 million and sold investments for \$15.2 million.

Net cash derived from financing activities was \$21.2 million in 2008 compared to \$191.9 million in 2007. Proceeds from new bank loans in 2008 amounted to \$168.05 million compared to \$342.3 million in the previous year. Scheduled repayments of debt amounted to \$44.4 million in 2008 compared to \$59.4 million of scheduled repayments and \$26.7 million of debt prepayments in 2007. During 2008, the Company repurchased 392,400 shares at a cost of \$12.2 million as part of the share buy back program. During 2007, 20,800 shares were repurchased at a cost of \$1.3 million. All the repurchases were open market transactions with a maximum price set by the Board of Directors. The shares were immediately deemed cancelled on purchase in accordance with our Bye-laws and Bermudan legislation.

Also in 2008, the Company repurchased 812,700 shares as Treasury Stock as part of the same repurchase program, at a total cost of \$21.9 million. At December 31, 2008, 286,000 of those shares were issued to employees when their restricted share units, awarded in 2007, vested.

A cash dividend of \$0.90 was paid in April 2008 representing the final dividend for the fiscal year 2007 and a \$0.90 dividend was paid in October 2008 as the first dividend for the fiscal year 2008. In total, the two dividends amounted to \$67.2 million. A final dividend of \$0.85 per share for the fiscal year 2008 has been declared on March 19, 2009, to be paid on April 30, 2009. The dividend policy of the Company is to pay between 25% and 50% of the net income in any given year, payable in two installments, the first prior to the end of the year based on expected earnings and cash requirements, and the final portion in the early part of the following year based on final earnings and cash requirements. The payment and the amount are subject to the discretion of our board of directors and depend, among other things, on available cash balances, anticipated cash needs, our results of operations, our financial condition, and any loan agreement restrictions binding us or our subsidiaries, as well as other relevant factors.

## **Investment in Fleet and Related Expenses**

We operate in a capital-intensive industry requiring extensive investment in revenue-producing assets. As discussed previously in the sections **Business Overview** and **Our Fleet**, we continue to have an active fleet development program resulting in a fleet of modern and young vessels with an average age of 6.3 years at March 31, 2009. We raise the funds for such investments in newbuildings mainly from borrowings and partly out of internally generated funds. Newbuilding contracts generally provide for multiple staged payments of 5% to 10%, with the balance of the vessel purchase price paid upon delivery. For the equity portion of an investment in a newbuilding or a second-hand vessel, we generally pay from our own cash approximately 30% of the contract price. Repayment of the debt incurred to purchase the vessel is made from vessel operating cash flow, typically over eight to twelve years, compared to the vessel's asset life of approximately 25 years (LNG carrier 40 years).

As of December 31, 2008, we were committed to four newbuilding contracts totaling approximately \$241.8 million, of which \$47.5 million had been paid by December 31, 2008.

## **Debt**

As is customary in our industry, we anticipate financing the majority of our commitments on the newbuildings with bank debt. Generally we raise at least 70% of the vessel purchase price with bank debt for a period of between eight and twelve years (while the expected life of a tanker is 25 years and an LNG carrier is 40 years). As of



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December 31, 2008, we had available unused loan amounts available totaling \$49.2 million, none of which is currently designated. Financial arrangements relating to the remaining four vessels under construction are currently in progress and are expected to be concluded prior to the delivery of the first vessel in mid-July 2009.

**Summary of Loan Movements Throughout 2008 (in \$ millions):**

Loan	Vessel	Balance at January 1, 2008	New Loans	Repaid	Balance at December 31, 2008
12-year term loan	<i>Opal Queen</i>	20.9	0	1.8	19.1
Credit facility	<i>La Madrina, Hesnes, Vergina II, Victory III, Sakura Princess</i>	136.8	0	12.6	124.2
Credit facility	<i>Silia T, Andes, Didimon, Antares, Izumo Princess, Aegeas.</i>	198.7	0	11.9	186.8
Credit facility	<i>Millennium, Parthenon, Marathon, Triathlon, Eurochampion 2004, Euronike</i>	234.8	0	0	234.8
Credit facility	<i>Archangel, Alaska, Arctic, Antarctic</i>	136.8	0	10.6	126.2
Credit facility	<i>Delphi, La Prudencia, Byzantion, Bosporos</i>	121.5	0	0	121.5
Credit facility	<i>Artemis, Afrodite, Ariadne, Ajax, Apollon, Aris, Proteas Promitheas, Propontis</i>	327.3	0	0	327.3
10-year term loan	<i>Arion, Andromeda</i>	47.6	0	3.1	44.5
Credit facility	<i>Maya, Inca</i>	60.6	0	4.4	56.2
Credit facility	<i>Neo Energy</i>	104.9	0	0	104.9
10-year term loan	<i>Maria Princess, Nippon Princess</i>	0	88.4	0	88.4
Credit facility	<i>Selecao, Socrates</i>	0	79.7	0	79.7
<b>Total</b>		<b>1,389.9</b>	<b>168.1</b>	<b>44.4</b>	<b>1,513.6</b>

As a result of such financing activities, long-term debt decreased in 2008 by a net amount \$123.9 compared to a net increase of \$256.2 million in 2007. The average debt to capital ratio was 62.4% at December 31, 2008 or, net of cash, 56.9%. In terms of liabilities against assets at fair value, our leverage, as computed in accordance with our credit facilities, at December 31, 2008 was 47.8%, well below the loan covenant maximum of 70% which is applicable to all the above loans on a fleet and total liabilities basis, with the exception of the credit facility for the *Maya* and *Inca*. All other bank loan covenants have also been met as at December 31, 2008. Interest payable is usually at a variable rate, based on six-month LIBOR plus a margin. Interest rate swap instruments currently cover approximately 61% of the outstanding debt, and further coverage is being discussed with major banks.

**Off-Balance Sheet Arrangements**

None.

**Long-term Contractual Obligations as of December 31, 2008 (in \$ millions) were:**

Contractual Obligations	Total	Less than 1			More than 5 years
		year (2009)	1-3 years (2010-2011)	3-5 years (2012-2013)	(After January 1, 2014)
Long-term debt obligations (excluding interest)	1,513.6	91.8	207.9	251.4	962.5
Interest on long-term debt obligations	511.8	58.8	116.9	128.5	207.6
Purchase Obligations (newbuildings)	194.3	109.0	85.3		
Management Fees payable to Tsakos Energy Management (based on existing fleet plus contracted future deliveries as at December 31, 2008)	132.2	13.9	28.3	28.3	61.7

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<b>Total</b>	<b>2,351.9</b>	<b>273.5</b>	<b>438.4</b>	<b>408.2</b>	<b>1,231.8</b>
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The amounts shown above for interest obligations include contractual fixed interest obligations and interest obligations for floating rate debt as at December 31, 2008 based on the amortization schedule for such debt and the average interest rate as described in Item 11. Quantitative and Qualitative Disclosures About Market Risk. The Company is a party to floating-to-fixed interest rate swaps covering notional amounts aggregating \$922.1 million at

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December 31, 2008 that effectively convert the Company's interest rate exposure from a floating rate based on LIBOR to a fixed rate. Three of these swaps covering a total notional amount of \$290.5 million include cap and floor option features by which interest rate payable may revert to a variable rate if certain defined criteria based on LIBOR or US swap rates are breached. Obligations arising from swaps are based on rates described in Item 11.

**Item 6. Directors, Senior Management and Employees**

The following table sets forth, as of March 31, 2009, information for each of our directors and senior managers.

Name	Age	Positions	Year First Elected
D. John Stavropoulos	76	Chairman of the Board	1994
Nikolas P. Tsakos	45	President and Chief Executive Officer, Director	1993
Michael G. Jolliffe	59	Deputy Chairman of the Board	1993
George V. Saroglou	44	Vice President, Chief Operating Officer, Director	2001
Paul Durham	58	Chief Financial Officer	
Vladimir Jadro	63	Chief Marine Officer	
Peter Nicholson	75	Director	1993
Francis T. Nusspickel	68	Director	2004
William O. Neil	81	Director	2004
Richard L. Paniguiian	59	Director	*
Aristides A.N. Patrinos	61	Director	2006

\* Mr. Paniguiian was appointed as an additional director by the Board on September 26, 2008, and will stand for election for the first time at the 2009 Annual Meeting of Shareholders.

Certain biographical information about each of these individuals is set forth below.

**D. JOHN STAVROPOULOS****CHAIRMAN**

Mr. Stavropoulos served as Executive Vice President and Chief Credit Officer of The First National Bank of Chicago and its parent, First Chicago Corporation, before retiring in 1990 after 33 years with the bank. He chaired the bank's Credit Strategy Committee, Country Risk Management Council and Economic Council. His memberships in professional societies have included Robert Morris Associates (national director), the Association of Reserve City Bankers and the Financial Analysts Federation. Mr. Stavropoulos was appointed by President George H.W. Bush to serve for life on the Presidential Credit Standards Advisory Committee. He has been elected to the board of directors of Aspis Bank in Greece and has served as its Chairman since July 2008. Mr. Stavropoulos was a director of CIPSCO from 1979 to 1992, an instructor of Economics and Finance at Northwestern University from 1962 to 1968, serves as a life member on the Alumni Advisory Board of the Kellogg School of Management and is a Chartered Financial Analyst.

**NIKOLAS P. TSAKOS****PRESIDENT**

Mr. Tsakos has been President, Chief Executive Officer and a director of the Company since inception. Mr. Tsakos is the sole shareholder of Tsakos Energy Management Limited. He has been involved in ship management since 1981 and has 36 months of seafaring experience. He is the former President of the Hellenic Marine Environment Protection Agency (HELMEPA). Mr. Tsakos is a member of the council of the Independent Tanker Owners Association (INTERTANKO), a board member of the UK P&I Club, a board member of the Union of Greek Shipowners (UGS), a council member of the board of the Greek Shipping Co-operation Committee (GSCC) and a council member of the American Bureau of Shipping (ABS), Bureau Veritas (BV) and of the Greek Committee of Det Norske Veritas (DNV) and a board member of Bank of Cyprus. He graduated from Columbia University in New York in 1985 with a degree in Economics and Political Science and obtained a

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Masters Degree in Shipping, Trade and Finance from the City of London University Business School in 1987. Mr. Tsakos served as an officer in the Hellenic Navy in 1988.

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### **MICHAEL G. JOLLIFFE**

#### **DEPUTY CHAIRMAN**

Mr. Jolliffe has been Chairman of Wigham-Richardson Shipbrokers Ltd., one of the oldest established shipbroking companies in the City of London, since 1987 and Chairman of Shipping Spares Repairs and Supplies Ltd., an agency company based in Piraeus, Greece since 1976. Additionally, Mr. Jolliffe has been the President of Eurotrans Hermes Hellas S.A., the Greek agent for various manufacturers of trams, buses and trains since 2002. Mr. Jolliffe is also the Joint President of Hanjin Eurobulk Ltd., a joint venture between Hanjin Shipping Co., Ltd., of Seoul, Korea and Wigham-Richardson Shipbrokers Ltd. Mr. Jolliffe is Deputy Chairman of Lannet, a telephone company quoted on the Athens Stock Exchange. He is also Chairman of StealthGas Inc., a shipping company whose common stock is listed on the Nasdaq Global Select Market.

### **GEORGE V. SAROGLOU**

#### **CHIEF OPERATING OFFICER**

Mr. Saroglou has been Chief Operating Officer of the Company since 1996. Mr. Saroglou is a shareholder and director of Pansystems S.A., a leading Greek information technology systems integrator, where he also worked from 1987 until 1994. From 1995 to 1996 he was employed in the Trading Department of the Tsakos Group. He graduated from McGill University in Canada in 1987 with a Bachelors Degree in Science (Mathematics).

### **PAUL DURHAM**

#### **CHIEF FINANCIAL OFFICER**

Mr. Durham joined the Tsakos Group in 1999 and has served as our Chief Financial Officer and Chief Accounting Officer since 2000. Mr. Durham is a United Kingdom Chartered Accountant. From 1989 through 1998, Mr. Durham was employed in Athens with the Latsis Group, a shipping, refinery and banking enterprise, becoming Financial Director of Shipping in 1995. From 1983 to 1989, Mr. Durham was employed by RJR Nabisco Corporation, serving as audit manager for Europe, Asia and Africa until 1986 and then as financial controller of one of their United Kingdom food divisions. Mr. Durham worked with Ernst & Young (London and Paris) from 1972 to 1979 and Deloitte & Touche (Chicago and Athens) from 1979 to 1983.

### **VLADIMIR JADRO**

#### **CHIEF MARINE OFFICER**

Mr. Jadro joined Tsakos Energy Navigation Limited in February 2006. He was appointed Chief Marine Officer of the Company in June 2006. Mr. Jadro was employed by Exxon/ExxonMobil Corp. from 1980 until 2004 in various technical and operational positions including operations, repairs, new building constructions, off shore conversions and projects of the marine department of ExxonMobil Corp. He was in charge of various tankers and gas carriers from 28,000 dwt to 409,000 dwt, and responsible for the company vetting system. He was also involved in the development of oil companies international SIRE vessel inspection system. From 1978 until 1980 he was employed by the Bethlehem Steel shipyard. From 1967 until 1977, Mr. Jadro was employed on various tankers starting as third engineer and advancing to Chief Engineer. Mr. Jadro is a member of the Society of Naval Architects and Marine Engineers (SNAME) and Port Engineers of New York.

### **PETER NICHOLSON, CBE**

#### **DIRECTOR**

Mr. Nicholson is trained as a naval architect and spent the majority of his professional career with Camper & Nicholson Limited, the world-famous yacht builder. He became Managing Director of the firm and later, Chairman. When Camper & Nicholson merged with Crest Securities to form Crest Nicholson Plc in 1972, Mr. Nicholson became an executive director, a role he held until 1988 when he became a non-executive in order to pursue a wider range of business interests. Since that time, he has been a non-executive director of Lloyds TSB Group Plc (from 1990 to 2000) and Chairman of Carisbrooke Shipping Plc (from 1990 to 1999). He was a director of various companies in the Marsh Group of insurance brokers and remained a consultant to the company until recently. He has served on the boards of a variety of small companies, has been active in the administration of the United Kingdom marine industry and is a trustee of the British Marine Federation. He is a Younger Brother of Trinity House. He was Chairman of the Royal National Lifeboat Institution from 2000 to 2004.



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### **FRANCIS T. NUSSPICKEL**

#### **DIRECTOR**

Mr. Nusspickel is a retired partner of Arthur Andersen LLP with 35 years of public accounting experience. He is a Certified Public Accountant in several U.S. states. During his years with Arthur Andersen, he served as a member of their Transportation Industry Group and was worldwide Industry Head for the Ocean Shipping segment. His responsibilities included projects for mergers and acquisitions, fraud investigations, arbitrations and debt and equity offerings. He was President of the New York State Society of Certified Public Accountants from 1996 to 1997, a member of the AICPA Council from 1992 to 1998, and from 2004 to 2007 was Chairman of the Professional Ethics Committee of the New York State Society of Certified Public Accountants. Mr. Nusspickel is also a Director of Symmetry Medical Inc., a New York Stock Exchange listed medical device manufacturer.

### **WILLIAM O NEIL, CMG**

#### **DIRECTOR**

Mr. O Neil is Secretary-General Emeritus of the International Maritime Organization, or IMO, the United Nations agency concerned with maritime safety and security and the prevention of pollution from ships. He was first elected Secretary-General of the IMO in 1990 and was re-elected four times, remaining Secretary-General until the end of 2003. Mr. O Neil has served in various positions with the Canadian Federal Department of Transport and subsequently held senior positions during the construction and operation of the St. Lawrence Seaway Authority. He was appointed the first Commissioner of the Canadian Coast Guard where he served from 1975 until 1980 and then became President and Chief Executive Officer of the St. Lawrence Seaway Authority for ten years. Mr. O Neil originally represented Canada in 1972 at the IMO Council, later becoming Chairman of the IMO Council in 1980. In 1991, he became Chancellor of the World Maritime University, Malmo, Sweden and Chairman of the Governing Board of the International Maritime Law Institute in Malta. Mr. O Neil is a past President of the Institute of Chartered Shipbrokers and is President of Videotel Marine International, both of which are engaged in the training of seafarers. He is a civil engineer graduate of the University of Toronto, a fellow of the Royal Academy of Engineering and the Chairman of the Advisory Board of the Panama Canal Authority.

### **RICHARD L. PANIGUIAN, CBE**

#### **DIRECTOR**

Mr. Paniguan was appointed Head of UK Defence and Security Organisation, or DSO, in August 2008, which supports UK defence and security businesses seeking to export and develop joint ventures and partnerships overseas, as well as overseas defence and security businesses seeking to invest in the UK. Previously, Mr. Paniguan pursued a career with BP plc. where he worked for 37 years. He held a wide range of posts with BP, including, in the 1980s, as Commercial Director in the Middle East, Head of International Oil Trading in New York and Head of Capital Markets in London. In the 1990s he completed assignments as a Director of BP Europe, Chief Executive of BP Shipping and subsequently Head of Gas Development in the Middle East and Africa. In 2001 he was appointed Group Vice President for Russia, the Caspian, Middle East and Africa, where he was responsible for developing and delivering BP's growth strategy in these regions. He played a leading role in support of the TNK-BP joint venture; in delivering the Baku Tbilisi Ceyhan pipeline project; in driving for new gas exploration in Libya, Egypt and Oman; and in completing BP's first oil project in Angola. In 2007 he was appointed CBE for services to business. Between 2002 and 2007 he was Chairman of the Egyptian British Business Council, and between 2000 and 2002 President of the UK Chamber of Shipping. Mr. Paniguan has a degree in Arabic and Middle East politics and an MBA.

### **ARISTIDES A.N. PATRINOS, PH.D**

#### **DIRECTOR**

Dr. Patrinos has been instrumental in advancing the scientific and policy framework underpinning key governmental energy and environmental initiatives. Dr. Patrinos is President of Synthetic Genomics, Inc., a privately-held company dedicated to developing and commercializing clean and sustainable biofuels that alleviate our dependence on petroleum, enable carbon sequestration and reduce greenhouse gases. Dr. Patrinos joined Synthetic Genomics in February 2006 from the U.S. Department of Energy's Office of Science. There he served from December 1988 to February 2006 as associate director of the Office of Biological and Environmental Research, overseeing the department's research activities in human and microbial genome research, structural biology, nuclear medicine, and global environmental change. Dr. Patrinos played a historic role in the Human Genome Project, the founding of the DOE Joint Genome Institute and the design and launch of the DOE's Genomes to Life Program, a research program dedicated to developing technologies to use microbes for innovative solutions to energy and environmental

challenges. Dr. Patrinos is a Fellow of the American Association for the Advancement



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of Science and of the American Meteorological Society, and a Member of the American Geophysical Union, the American Society of Mechanical Engineers, and the Greek Technical Society. He is the recipient of numerous awards and honorary degrees, including three Presidential Rank Awards and two Secretary of Energy Gold Medals, as well as an honorary doctorate from the National Technical University of Athens. A native of Greece, Dr. Patrinos received his undergraduate degree from the National Technical University of Athens, and a Ph.D. in mechanical engineering and astronomical sciences from Northwestern University.

### ***Corporate Governance***

#### **Board of Directors**

Our business is managed under the direction of the Board, in accordance with the Companies Act of 1981 of Bermuda and our Memorandum of Association and Bye-laws. Members of the Board are kept informed of our business through: discussions with the Chairman of the Board, the President and Chief Executive Officer and other members of our management team; the review of materials provided to directors; and, participation in meetings of the Board and its committees. In accordance with our Bye-laws, the Board has specified that the number of directors will be set at no less than five or more than fifteen. At December 31, 2008 we had nine members on our Board. Under our Bye-laws, one third (or the number nearest one third) of the Board (with the exception of any executive director) retires by rotation each year. The Bye-laws require that the one third of the directors to retire by rotation be those who have been in office longest since their last appointment or re-appointment. The Bye-laws specify that where the directors to retire have been in office for an equal length of time, those to retire are to be determined by lot (unless they agree otherwise among themselves).

During the fiscal year ended December 31, 2008, the full Board held three meetings. Each director attended all of the meetings of the Board. In addition, with the exception of Mr. Nicholson who did not participate in one Audit Committee meeting, each director attended all of the meetings of committees of which the director was a member.

#### **Independence of Directors**

The foundation for the Company's corporate governance is the Board's policy that a substantial majority of the members of the Board should be independent. With the exception of the two Executive Directors (Messrs. Tsakos and Saroglou) the Board believes that each of the other incumbent directors (Messrs. Stavropoulos, Jolliffe, Nicholson, Nusspichel, O'Neil, Paniguian and Patrinos) is independent under the standards established by the New York Stock Exchange (the "NYSE") because none has a material relationship with the Company directly or indirectly or any relationship that would interfere with the exercise of their independent judgment as directors of the Company.

The Board made its determination of independence in accordance with its Corporate Governance Guidelines, which specifies standards and a process for evaluating director independence. The Guidelines provide that:

A director cannot be independent if he or she fails to meet the objective requirements as to independence under the NYSE listing standards.

If a director meets the objective NYSE standards, he or she will be deemed independent, absent unusual circumstances, if in the current year and the past three years the director has had no related-party transaction or relationship with the Company or an interlocking relationship with another entity triggering disclosure under the SEC disclosure rules.

If a director who meets the objective NYSE independence requirements either has had a disclosable transaction or relationship or the Corporate Governance, Nominating and Compensation Committee requests that the Board consider any other circumstances in determining the director's independence, the Board will make a determination of the director's independence.

To promote open discussion among the independent directors, those directors met three times in 2008 in regularly scheduled executive sessions without participation of the Company's management and will continue to do so in 2009. Mr. Nicholson currently serves as the Presiding Director for purposes of these meetings.



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### **Documents Establishing Our Corporate Governance**

The Board and the Company's management have engaged in an ongoing review of our corporate governance practices in order to oversee our compliance with the applicable corporate governance rules of the NYSE and the SEC.

The Company has adopted a number of key documents that are the foundation of its corporate governance, including:

a Code of Business Conduct and Ethics for Directors, Officers and Employees;

a Corporate Governance, Nominating and Compensation Committee Charter; and

an Audit Committee Charter.

These documents and other important information on our governance, including the Board's Corporate Governance Guidelines, are posted in the Investor Relations section of the Tsakos Energy Navigation Limited website, and may be viewed at <http://www.tenn.gr>. We will also provide any of these documents in hard copy upon the written request of a shareholder. Shareholders may direct their requests to the attention of Investor Relations, c/o George Saroglou or Paul Durham, Tsakos Energy Navigation Limited, 367 Syngrou Avenue, 175 64 P. Faliro, Athens, Greece.

The Board has a long-standing commitment to sound and effective corporate governance practices. The Board's Corporate Governance Guidelines address a number of important governance issues such as:

Selection and monitoring of the performance of the Company's senior management;

Succession planning for the Company's senior management;

Qualifications for membership on the Board;

Functioning of the Board, including the requirement for meetings of the independent directors; and

Standards and procedures for determining the independence of directors.

The Board believes that the Corporate Governance Guidelines and other governance documents meet current requirements and reflect a very high standard of corporate governance.

### **Committees of the Board**

The Board has established an Audit Committee, a Corporate Governance, Nominating and Compensation Committee, a Capital Markets Committee, a Risk Committee, an Operational and Environmental R&D Committee and a Chartering Committee.

#### **Audit Committee**

The members of the Audit Committee are Messrs. Jolliffe, Nicholson, Nusspickel and Stavropoulos, each of whom is an independent Director. Mr. Nusspickel is the Chairman of the Audit Committee. The Audit Committee is governed by a written charter, which is approved and adopted annually by the Board. The Board has determined that the continuing members of the Audit Committee meet the applicable independence requirements, and that all continuing members of the Audit Committee meet the requirement of being financially literate. The Audit Committee

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held five meetings during the fiscal year ended December 31, 2008, three of which were in person and two via telephone conference. The Audit Committee is appointed by the Board and is responsible for, among other matters:

engaging the Company's external and internal auditors;

approving in advance all audit and non-audit services provided by the auditors;

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approving all fees paid to the auditors;

reviewing the qualification and independence of the Company's external auditors;

reviewing the Company's relationship with external auditors, including the consideration of audit fees which should be paid as well as any other fees which are payable to auditors in respect of non-audit activities, discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made vis-à-vis the Company's accounting standards;

overseeing the Company's financial reporting and internal control functions;

overseeing the Company's whistleblower's process and protection; and

overseeing general compliance with related regulatory requirements.

The Board of Directors has determined that Messrs. Nusspickel and Stavropoulos, whose biographical details are included herein, each qualifies as an audit committee financial expert as defined under current SEC regulations and each is independent in accordance with the listing standards of the NYSE.

### **Corporate Governance, Nominating and Compensation Committee**

The members of the Corporate Governance, Nominating and Compensation Committee are Messrs. Jolliffe, Nicholson, Nusspickel, O'Neil, Paniguian, Patrinos and Stavropoulos, each of whom is an independent Director. Mr. Nicholson is Chairman of the Committee. The Corporate Governance, Nominating and Compensation Committee is appointed by the Board and is responsible for:

assisting the Board and the Company's management in establishing and maintaining a high standard of ethical principles;

ensuring appropriate independence of directors under NYSE and SEC rules;

identifying and nominating candidates for election to the Board and appointing the Chief Executive Officer and the Company's senior management team;

designing the compensation structure for the Company and for the members of the Board and its various committees; and

designing and overseeing the short-term and long-term incentive compensation program of the Company.

During 2008, there were three meetings of the Corporate Governance, Nominating and Compensation Committee. Mr. Paniguian who joined the Board of Directors in September of 2008 did not participate in any of the 2008 committee meetings.

### **Capital Markets Committee**

The members of the Capital Markets Committee are Messrs. Jolliffe, Tsakos and Stavropoulos. Mr. Jolliffe is Chairman of the Capital Markets Committee. The Capital Markets Committee assists the Board and the Company's management regarding matters relating to the raising of capital in the equity and debt markets, relationships with investment banks, communications with existing and prospective investors and compliance

with related regulatory requirements.

**Risk Committee**

The members of the Risk Committee are Messrs. Nicholson, Stavropoulos, Tsakos, and our chief financial officer, Mr. Durham. Mr. Stavropoulos is Chairman of the Risk Committee. The primary role of the Risk Committee is to assist the Board and the Company's management regarding matters relating to insurance protection coverage of physical assets, third party liabilities, contract employees, charter revenues and officer and director liability. The Risk Committee also assists in the development and maintenance of commercial banking and other direct lender relationships, including loans and, when appropriate, interest rate hedging instruments.

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### **Operational and Environmental R&D Committee**

The Operational and Environmental R&D Committee was established at the Board of Directors meeting of May 31, 2007. The members of the committee are Messrs. O Neil, Nusspickel and Patrinos. It also includes the Deputy Chairman of our technical manager, Mr. Vasilis Papageorgiou. Mr. Papageorgiou is not a director or officer of our Company. Dr. Patrinos is Chairman of the Operational and Environmental R&D Committee. The primary role of the Operational and Environmental R&D Committee is to draw the attention of the Board and the Company's management to issues of concern regarding the safety of crew and vessel and the impact of the maritime industry on the environment, to provide an update on related legislation and technological innovations, and more specifically highlight areas in which the Company itself may play a more active role in being in the forefront of adopting operational procedures and technologies that will ensure maximum safety for crew and vessel and contribute to a better environment.

### **Chartering Committee**

The members of the Chartering Committee are Messrs. Stavropoulos, Saroglou and Tsakos. Mr. Tsakos is Chairman of the Chartering Committee. The Chartering Committee assists the Board and the Company's management regarding the strategies of fleet employment, fleet composition and the general structuring of charter agreements.

### **Board Compensation**

We pay no cash compensation to our senior management or to our directors who are senior managers. We have no salaried employees. For the year ended December 31, 2008, the aggregate cash compensation of all of the members of the Board was \$482,711 as per the following annual fee allocation which was approved by the shareholders of the Company on May 31, 2007:

Service on the Board - \$45,000

Service on the Audit Committee - \$17,500

Service on the Capital Markets Committee - \$10,000

Service on the Operational and Environmental R&D Committee - \$10,000

Service as Chairman of the Audit Committee - \$20,000

Service as Chairman of the Capital Markets Committee - \$10,000

Service as Chairman of the Board - \$30,000

We do not provide benefits for directors upon termination of their service with us.

### **Management Company**

Our senior managers, other than Mr. Tsakos, receive salaried compensation from Tsakos Energy Management, which receives a monthly management fee from us pursuant to the management agreement to provide overall executive and commercial management of its affairs. See Management and Other Fees in Item 7 for more information on the management agreement and the management fees we paid for the fiscal year ended December 31, 2008.

**Management Compensation**

Messrs. Tsakos, Saroglou, Durham and Jadro serve as President and Chief Executive Officer, Vice President and Chief Operating Officer, Chief Financial Officer, and Chief Marine Officer, respectively. Such individuals are employees of Tsakos Energy Management and, except for the equity compensation discussed below, are not directly compensated by the Company.



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The Corporate Governance, Nominating and Compensation Committee has adopted a short-term performance incentive program for Tsakos Energy Management based on the return on equity (R.O.E.) measured by the book value per share at the beginning of each fiscal year and basic earnings per share for that year. U.S. GAAP accounting defines the value of the components. The award scale for 2006 ranged from R.O.E. greater than 15% corresponding to an award amount of \$1.25 million (\$1.0 million in 2004 and 2005) up to R.O.E. greater than 25% with an award amount of \$3.5 million (\$2.5 million in 2004 and 2005). For 2006 and 2005 incentive awards of \$3.5 million and \$2.5 million, respectively, were approved by the Board of Directors and are expensed and recognized in accrued liabilities in the Company's December 31, 2006 and 2005 Consolidated Balance Sheets.

In September 2006, the Corporate Governance, Nominating and Compensation Committee established the incentive award scale, for fiscal 2007, as follows:

<b>R.O.E</b>	<b>Amount of award</b>
15.0%	\$ 1.50 million
17.5%	\$ 2.25 million
20.0%	\$ 3.00 million
22.5%	\$ 3.75 million
25.0%	\$ 4.50 million

For 2007, Tsakos Energy Management earned an award of \$4.0 million, which was distributed to the senior personnel of Tsakos Energy Management and Tsakos Shipping whose performance was critical in achieving a return of equity of 24.2%. The ultimate award of the management incentive award is always at the sole discretion of the Company's Board of Directors. The 2007 award was approved by the Company's Board of Directors on March 14, 2008.

In September, 2007, the Corporate Governance, Nominating and Compensation Committee revised the incentive award scale, effective from January 1, 2008, as follows:

<b>R.O.E</b>	<b>Amount of award</b>
15.0%	\$ 2.50 million
17.5%	\$ 3.25 million
20.0%	\$ 4.00 million
22.5%	\$ 4.75 million
25.0%	\$ 5.50 million

For 2008, Tsakos Energy Management earned an award of \$4.75 million, which will be distributed to the senior personnel of Tsakos Energy Management and Tsakos Shipping whose performance was critical in achieving a return of equity of 23.7%. The ultimate award of the management incentive award is always at the sole discretion of the Company's Board of Directors. The 2008 award was approved by the Company's Board of Directors on March 17, 2009.

The Corporate Governance, Nominating and Compensation Committee, considering the current economic environment, revised the incentive award scale effective January 1, 2009 as follows:

<b>R.O.E.</b>	<b>Amount of award</b>
15.0%	\$ 3.00 million
17.5%	\$ 4.00 million
20.0%	\$ 5.00 million
22.5%	
25.0%	

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Additionally in 2009, if the R.O.E. is less than 15.0% but greater than 10.0% then an alternative award is possible if the Company's R.O.E. exceeds the average R.O.E. of its peers (Overseas Shipholding Group, Inc. and Teekay Corporation). In such case, the Board of Directors may elect to award a bonus of \$1.5 million.

## **Employees**

Tsakos Energy Navigation Limited has no salaried employees. All crew members are employed by the owning-company of the vessel on which they serve, except where the vessel is on a bareboat charter-out (*Millennium*), or the vessels, or crewing of the vessels, are under third-party management arranged by our technical managers. All owning-companies, with the exception of the companies owning the two chartered-in vessels, are subsidiaries of Tsakos Energy Navigation Limited. Approximately 850 officers and crew members served on board the vessels we own and are managed by our technical managers as of December 31, 2008.

## **Share ownership**

The common shares beneficially owned by our directors and senior managers and/or companies affiliated with these individuals are disclosed in Item 7. Major Shareholders and Related Party Transactions below.

## **Stock compensation plan**

We currently have one stock compensation plan, the Tsakos Energy Navigation Limited 2004 Incentive Plan (the 2004 Plan), which was adopted by our Board and approved by our shareholders at the 2004 Annual Meeting of shareholders. This plan permits us to grant share options or other share based awards to our directors and officers, to the officers of our vessels, and to the directors, officers and employees of our manager, Tsakos Energy Management, and our technical manager, Tsakos Shipping.

The purpose of the 2004 Plan is to provide a means to attract, retain motivate and reward our present and prospective directors, officers and consultants of the Company and its subsidiaries, and the officers of our vessels and the employees of the management companies providing administrative, commercial, technical and maritime services to, or for the benefit of, the Company, its subsidiaries and their vessels by increasing their ownership in our Company. Awards under the 2004 Plan may include options to purchase our common shares, restricted share awards, other share-based awards (including share appreciation rights granted separately or in tandem with other awards) or a combination thereof.

The 2004 Plan is administered by our Corporate Governance, Nominating and Compensation Committee. Such committee has the authority, among other things, to: (i) select the present or prospective directors, officers, consultants and other personnel entitled to receive awards under the 2004 Plan; (ii) determine the form of awards, or combinations of awards; (iii) determine the number of shares covered by an award; and (iv) determine the terms and conditions of any awards granted under the 2004 Plan, including any restrictions or limitations on transfer, any vesting schedules or the acceleration of vesting schedules and any forfeiture provision or waiver of the same.

The 2004 Incentive Plan authorizes the issuance of up to 1,000,000 shares in the form of grants or options. In June 2006, the Company granted a total of 20,000 shares of restricted share units ( RSUs ) to the non-executive directors that vested on June 1, 2007. In March 2007, 580,000 RSUs related to the 2004 Plan were granted to officers of the Company and to officers of our vessels as well as employees of our manager and technical manager. On December 31, 2008, 50% of these RSUs vested with the remaining 50% vesting on December 31, 2010. A further 4,650 RSUs were issued to non-executive directors in June 2007, which vested in June 2008 and 1,000 RSUs were issued to a non-executive director in June 2007 and vested immediately. Of the 605,650 RSUs awarded in 2007 and 2006, 311,650 vested and 11,000 forfeited as of December 31, 2008. As of December 31, 2008, the weighted average remaining contractual life of outstanding grants is 2.0 years. Total compensation expense recognized for the year ended December 31, 2008 was \$3.0 million and for the year ended December 31, 2007, \$5.7 million. On November 14, 2007, the Company paid a 100% common share dividend which effected a two-for-one split of the Company's common shares. RSUs that were unvested on that date were adjusted for the share dividend.

During 2006, a previous stock compensation plan, the 1998 plan, ceased. The purpose of the 1998 Plan also was to provide incentives to those people who were capable of influencing the development, or contributing to the success, of our business. The maximum of 900,000 common shares were issued as options under the 1998 Plan to a total of 163 persons, consisting of directors and officers of the Company, and directors, officers and employees of Tsakos Energy Management and Tsakos Shipping. In August 2001, all outstanding stock options under the 1998 Plan were vested. During 2003, holders of options to acquire an aggregate of 538,000 common shares at \$5 per share exercised the options held by them. During 2005, holders of options to acquire an aggregate of nil common



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shares (36,000 common shares in 2004) at \$5 per share and 36,898 common shares (261,826 common shares in 2004) at \$6 per share exercised the options held by them. During 2006, holders of 9,752 common shares (36,898 common shares in 2005) at \$6 per share exercised the options held by them.

### **Item 7. Major Shareholders and Related Party Transactions**

It is our policy that transactions with related parties are entered into on terms no less favorable to us than would exist if these transactions were entered into with unrelated third parties on an arm's length basis. Tsakos Energy Management has undertaken to ensure that all transactions with related parties are reported to the board of directors. Under the management agreement, any such transaction or series of transactions involving payments in excess of \$100,000 and which is not in the ordinary course of business requires the prior consent of the board of directors. Transactions not involving payments in excess of \$100,000 may be reported quarterly to the board of directors.

To help minimize any conflict between our interests and the interests of other companies affiliated with the Tsakos family and the owners of other vessels managed by such companies if an opportunity to purchase a tanker which is 10 years of age or younger is referred to or developed by Tsakos Shipping, Tsakos Shipping will notify us of this opportunity and allow us a 10 business day period within which to decide whether or not to accept the opportunity before offering it to any of its affiliates or other clients.

#### **Management affiliations**

Nikolas P. Tsakos, our president, chief executive officer and one of our directors, is an officer, director and the sole shareholder of Tsakos Energy Management. He is also the son of the founder of Tsakos Shipping.

George V. Saroglou, our chief operating officer and one of our directors, is a cousin of Nikolas P. Tsakos.

#### **Management and other fees**

We prepay or reimburse Tsakos Shipping at cost for all vessel operating expenses payable by Tsakos Shipping in its capacity as technical manager of our fleet. At December 31, 2008, outstanding advances to Tsakos Shipping and Trading amounted to \$2.7 million.

From the management fee we pay Tsakos Energy Management, Tsakos Energy Management in turn pays a management fee to Tsakos Shipping for its services as technical manager of our fleet and for its supervision of the construction of our newbuildings. Under the terms of our management agreement with Tsakos Energy Management, we paid to Tsakos Energy Management management fees of \$11.7 million and supervisory fees of \$1.2 million relating to the construction of our vessels in 2008.

Based on the results of operations for 2008, Tsakos Energy Management has earned an incentive award of \$4.75 million, which will be distributed to senior and other personnel of Tsakos Energy Management and Tsakos Shipping whose performance was critical in achieving a return on equity of 23.7%.

#### **Management agreement**

Our management agreement with Tsakos Energy Management was amended and restated on March 8, 2007 and has a term of ten years from the effective date of January 1, 2007. Tsakos Energy Management may terminate the management agreement at any time upon not less than one year's notice. In addition, each party may terminate the management agreement in the following circumstances:

certain events of bankruptcy or liquidation involving either party;

a material breach by either party; or

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a failure by either party, for a continuous period of six months, materially to perform under circumstances resulting from war, governmental actions, riot, civil commotion, weather, accident, labor disputes or other causes not in the control of the non-performing party.

Moreover, following a change in our control, which would occur if at least one director were elected to our board without having been recommended by our existing board, Tsakos Energy Management may terminate the agreement on 10 business days' notice. If Tsakos Energy Management terminates the agreement for this reason, then we would immediately be obligated to pay Tsakos Energy Management the present discounted value of all of the payments that would have otherwise been due under the management agreement up until June 30 of the tenth year following the date of termination plus the average of the incentive awards previously paid to Tsakos Energy.

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Management multiplied by ten. Under these terms, therefore, a termination as of December 31, 2008 would have resulted in a payment of approximately \$126 million. Under the terms of the Management Agreement between the Company and Tsakos Energy Management Limited, the Company may terminate the agreement only under specific circumstances, such as breach of contract by the manager and change of control in the shareholding of the manager without the prior approval of the Company's Board of Directors.

Under the management agreement, we pay monthly fees for Tsakos Energy Management's management of our vessels. The management fees we pay Tsakos Energy Management under our management agreement are based on the number of ships in our fleet. The per-ship charges begin to accrue for a vessel at the point that a newbuilding contract is acquired, which is 18 to 24 months before the vessel begins to earn revenue for us. From July, 2004, the fee payable on owned operating vessels was \$18,000 per month, and the monthly fee on chartered-in operating vessels to \$12,500. As from June 30, 2004, a monthly management fee of \$12,500 is also payable on vessels under construction, except for any LNG carrier under construction, in which case, the fee would be \$18,000. The management agreement was amended on March 8, 2007, to raise the monthly fee to \$20,000 per owned vessel and \$15,000 for vessels chartered-in or chartered out on a bareboat basis and vessels under construction, effective January 1, 2007. Per the same management agreement, effective from January 1, 2008, there is a prorated adjustment if at beginning of the year the Euro has appreciated by 10% or more against the U.S. Dollar since January 1, 2007. In addition, there is an increase each year by a percentage figure reflecting 12 month Euribor, if both parties agree. As a consequence, from January 1, 2008, monthly fees for operating vessels have been increased accordingly to \$23,000 per owned vessel and \$17,000 for chartered-in vessels. In accordance with the terms of the same agreement, the monthly fee was increased, effective January 1, 2009, to \$23,700 for owned vessels and \$17,500 for vessels chartered-in or chartered out on a bareboat basis and vessels under construction.

### **Chartering commissions**

We pay a chartering commission to Tsakos Shipping equal to 1.25% on all freights, hires and demurrages involving our vessels. We have been charged by Tsakos Shipping chartering commissions aggregating \$7.7 million in 2008.

### **Captive insurance policies**

We pay Argosy Insurance Company, an affiliate of Tsakos Shipping, premiums to provide hull and machinery, increased value and loss of hire insurance for our vessels. We have been charged by Argosy for insurance premiums aggregating \$8.3 million in 2008.

### **Travel services**

We use AirMania Travel S.A., an affiliate of the Tsakos Group, for travel services primarily to transport our crews to and from our vessels. We were charged by AirMania an aggregate amount of \$1.3 million in 2008.

**Table of Contents****Major Shareholders**

The following table sets forth certain information regarding the beneficial ownership of our outstanding common shares as of April 9, 2009 held by:

each person or entity that we know beneficially owns 5% or more of our common shares;

each of our officers and directors; and

all our directors and officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. In general, a person who has or shares voting power or investment power with respect to securities is treated as a beneficial owner of those securities. Beneficial ownership does not necessarily imply that the named person has the economic or other benefits of ownership. Under SEC rules, shares subject to options, warrants or rights currently exercisable or exercisable within 60 days are considered as beneficially owned by the person holding those options, warrants or rights. The applicable percentage of ownership of each shareholder is based on 36,911,692 common shares outstanding on April 9, 2009. Except as noted below, the address of all shareholders, officers, directors and director nominees identified in the table and accompanying footnotes below is in care of the Company's principal executive offices.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Outstanding Common Shares
Tsakos Holdings Foundation <sup>(1)</sup>		
Redmont Trading Corp. <sup>(1)</sup>	2,491,812	6.8%
First Tsakos Investments Inc. <sup>(1)</sup>		
Kelley Enterprises Inc. <sup>(1)</sup>	5,002,298	13.6%
Marsland Holdings Limited <sup>(1)</sup>	3,057,478	8.3%
Sea Consolidation S.A. of Panama <sup>(2)</sup>	3,952,232	10.7%
Renaissance Technologies LLC <sup>(3)</sup>	2,334,800	6.3%
Intermed Champion S.A. of Panama <sup>(2)</sup>	241,390	*

Officers and Directors	Number of Shares Beneficially Owned	Unvested RSUs
D. John Stavropoulos <sup>(4)</sup>	236,740*	3,000 <sub>A</sub>
Nikolas P. Tsakos <sup>(5)</sup>	72,000*	40,000 <sub>B</sub>
Michael G. Jolliffe	20,800*	2,000 <sub>A</sub>
George V. Saroglou	15,000*	11,000 <sub>B</sub>
Paul Durham	27,000*	11,000 <sub>B</sub>
Peter C. Nicholson	30,300*	1,600 <sub>A</sub>
Francis T. Nusspickel	8,350*	2,000 <sub>A</sub>
William A. O Neil	2,400*	1,600 <sub>A</sub>
Richard L. Paniguan		
Aristides A.N. Patrinos, Ph.D.	3,800*	1,600 <sub>A</sub>
Vladimir Jadro	3,000*	3,000 <sub>B</sub>
All officers and directors as a group (11 persons) <sup>(5)</sup>	419,390**	65,000

\* Represents less than 1% of the common shares outstanding.

\*\* Represents 1.1% of the common shares outstanding.

RSU Vesting Dates

A All restricted share units ( RSUs ) granted to the independent directors vest on May 29, 2010. B All RSUs granted to the officers vest on December 31, 2010. Although the shares for which these RSUs may be settled are not considered beneficially owned by the respective individuals, the RSUs are presented here as additional information because they represent an economic interest of the individuals in the Company s common shares.

- (1) First Tsakos Investments Inc. ( First Tsakos ) is the sole holder of the outstanding capital stock of Kelley Enterprises Inc. ( Kelley ) and Marsland Holdings Limited ( Marsland ) and may be deemed to have shared



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voting and dispositive power of the common shares reported by Kelley and Marsland. Tsakos Holdings Foundation is the sole holder of outstanding capital stock of First Tsakos and Redmont Trading Corp. ( Redmont ) and may be deemed to have shared voting and dispositive power of the common shares reported by Kelley, Marsland and Redmont. According to a Schedule 13D/A filed on January 13, 2009 by Tsakos Holdings, First Tsakos, Kelley, Marsland and Redmont, Tsakos Holdings is a Liechtenstein foundation whose beneficiaries include persons and entities affiliated with the Tsakos family, charitable institutions and other unaffiliated persons and entities. The council which controls Tsakos Holdings consists of five members, two of whom are members of the Tsakos family. Under the rules of the SEC, beneficial ownership includes the power to directly or indirectly vote or dispose of securities or to share such power. It does not necessarily imply economic ownership of the securities. Members of the Tsakos family are among the five council members of Tsakos Holdings and accordingly may be deemed to share voting and/or dispositive power with respect to the shares owned by Tsakos Holdings and may be deemed the beneficial owners of such shares. The business address of First Tsakos is 34 Efesou Street, Nea Smyrni, Athens, Greece. The business address of Kelley is Saffrey Square, Suite 205, Park Lane, P.O. Box N-8188, Nassau, Bahamas. The business address of Marsland is FGC Corporate Services Limited, 125 Main Street, PO Box 144, Road Town, Tortola, British Virgin Islands. The business address of Tsakos Holdings Foundation is Heiligkreuz 6, Vaduz, Liechtenstein. The business address of Redmont is 9 Nikodimon Street, Kastella, Piraeus, Greece.

- (2) According to a Schedule 13D/A filed on January 13, 2009 by Sea Consolidation S.A. of Panama ( Sea Consolidation ), Intermed Champion S.A. of Panama ( Intermed ) and Panayotis Tsakos, Panayotis Tsakos is the controlling shareholder of each of Sea Consolidation and Intermed and may be deemed to beneficially own the common shares indirectly as a result of his control relationship with Sea Consolidation and Intermed. The business address of each of Sea Consolidation, Intermed and Mr. Panayotis Tsakos is 367 Syngrou Avenue, 175 64 P. Faliro, Athens, Greece.
- (3) The amount of shares is based upon a Schedule 13G/A filed with the SEC on February 13, 2009, reporting beneficial ownership as of December 31, 2008. According to the filing, each of Renaissance Technologies LLC ( Renaissance ) and James H. Simons, control person of Renaissance, has sole voting power over 2,175,124 shares, sole dispositive power over 2,313,000 shares and shared dispositive power over 21,800 shares. The business address of Renaissance and Mr. Simons is 800 Third Avenue, New York, New York 10022.
- (4) Excludes 3,000 RSUs that will vest on May 29, 2010 but includes 10,000 shares held in trust for a daughter (Mr. Stavropoulos spouse is trustee and has voting rights for these shares). In addition, 18,690 shares are held directly by his children. Mr. Stavropoulos has no economic interest in these 28,690 shares. Additionally, his two siblings and an in-law collectively own 8,050 shares. Mr. Stavropoulos has no economic interest in these 8,050 shares.
- (5) Does not include shares owned by the Tsakos Holdings Foundation, Kelley Enterprises Inc., Marsland Holdings Limited, Redmont Trading Corp., Sea Consolidation S.A. of Panama or Intermed Champion S. A. of Panama.

As of April 9, 2009, we had 44 shareholders of record. Thirty-two of the shareholders of record were located in the United States and held in the aggregate 36,830,092 common shares representing approximately 99.8% of our outstanding common shares. However, these shareholders of record include CEDEFEST which, as nominee for The Depository Trust Company, is the record holder of 36,795,350 common shares. CEDEFEST is the nominee of banks and brokers who hold shares on behalf of their customers, the beneficial owners of the shares, who may or may not be resident in the United States. The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

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**Item 8. Financial Information**

See Item 18. Financial Statements below.

*Significant Changes.* No significant change has occurred since the date of the annual financial statements included in this annual report on Form 20-F.

*Legal Proceedings.* We are involved in litigation from time to time in the ordinary course of business. In our opinion, the litigation in which we are currently involved, individually or in the aggregate, is not material to us.

*Dividend Policy.* While we cannot assure you that we will do so, and subject to the limitations discussed below, we currently intend to pay regular cash dividends on our common shares of between one-quarter and one-half of our annual net income for the year in respect of which the dividends are paid. We plan to pay dividends on a semi-annual basis.

There can be no assurance that we will pay dividends or as to the amount of any dividend. The payment and the amount will be subject to the discretion of our board of directors and will depend, among other things, on available cash balances, anticipated cash needs, our results of operations, our financial condition, and any loan agreement restrictions binding us or our subsidiaries, as well as other relevant factors. For example, if we earned a capital gain on the sale of a vessel or newbuilding contract, we could determine to reinvest that gain instead of using it to pay dividends. Depending on our operating performance for that year, this could result in no dividend at all despite the existence of net income, or a dividend that represents a lower percentage of our net income. Of course, any payment of cash dividends could slow our ability to renew and expand our fleet, and could cause delays in the completion of our current newbuilding program.

Because we are holding a company with no material assets other than the stock of our subsidiaries, our ability to pay dividends will depend on the earnings and cash flow of our subsidiaries and their ability to pay dividends to us.

Under the terms of our existing credit facilities, we are permitted to declare or pay a cash dividend in any year as long as the amount of the dividend does not exceed 50% of our net income for that year. Net income will be determined based on the audited financial statements we deliver to the banks under our credit facilities which are required to be in accordance with U.S. generally accepted accounting principles. This amount can be carried forward and applied to a dividend payment in a subsequent year provided the aggregate amount of all dividends we declare and/or pay after January 1, 1998 does not exceed 50% of our accumulated net income from January 1, 1996 up to the most recent date on which audited financial statements have been delivered under the credit facility. We anticipate incurring significant additional indebtedness in connection with our newbuilding program, which will affect our net income and cash available to pay dividends. In addition, cash dividends can be paid only to the extent permitted by Bermuda law and our financial covenants. See Description of Capital Stock Bermuda Law Dividends. See Item 3. Key Information Risks Related to our Common Shares We may not be able to pay cash dividends as intended.

**Table of Contents****Item 9. The Offer and Listing**

Our common shares are listed on the New York Stock Exchange and the Bermuda Stock Exchange. Following a decision of our Board of Directors, our common shares were de-listed from Oslo Børs on March 18, 2005 and our common shares are not actively traded on the Bermuda Stock Exchange.

**Trading on the New York Stock Exchange**

Since our initial public offering in the United States in March of 2002, our common shares have been listed on the New York Stock Exchange under the ticker symbol TNP. The following table shows the high and low closing prices for our common shares during the indicated periods, all prices have been adjusted to take account of the two-for-one share split which became effective on November 14, 2007.

	<b>High</b>	<b>Low</b>
2004 (Annual)	\$ 21.71	\$ 9.29
2005 (Annual)	\$ 22.94	\$ 16.13
2006 (Annual)	\$ 24.83	\$ 17.01
2007 (Annual)	\$ 38.90	\$ 22.00
<b>2007</b>		
First Quarter	\$ 26.00	\$ 22.00
Second Quarter	\$ 35.27	\$ 25.89
Third Quarter	\$ 37.36	\$ 31.70
Fourth Quarter	\$ 38.90	\$ 32.99
2008 (Annual)	\$ 38.59	\$ 16.71
<b>2008</b>		
First Quarter	\$ 38.40	\$ 29.43
Second Quarter	\$ 38.59	\$ 30.36
Third Quarter	\$ 37.60	\$ 28.22
Fourth Quarter	\$ 29.77	\$ 16.71
October	\$ 29.77	\$ 20.88
November	\$ 25.83	\$ 16.71
December	\$ 21.03	\$ 17.87
<b>2009</b>		
First Quarter	\$ 22.20	\$ 12.43
January	\$ 22.20	\$ 18.71
February	\$ 19.95	\$ 14.18
March	\$ 16.60	\$ 12.43
Second Quarter		
April 1 to April 28	\$ 17.68	\$ 14.42

Source: Bloomberg

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### **Comparison of Cumulative Total Shareholder Return**

Set forth below is a graph comparing the cumulative total shareholder return of our common shares for the five years ending December 31, 2008, with the cumulative total return of the Dow Jones Marine Transportation Index and the S&P 500 Index. Total shareholder return represents stock price changes and assumes the reinvestment of dividends. The graph assumes the investment of \$100 on December 31, 2003. Past performance is not necessarily an indicator of future results.

Source: Zacks Investment Research, Inc.

### **Item 10. Additional Information**

#### **DESCRIPTION OF CAPITAL STOCK**

Our authorized capital stock consists of 100,000,000 shares, par value \$1.00 per share. As of April 9, 2009, there were 36,911,692 outstanding common shares. On November 14, 2007, there was a 2-for-1 split of our common shares, effected as a share dividend.

#### **Common Shares**

The holders of common shares are entitled to receive dividends out of assets legally available for that purpose at times and in amounts as our board of directors may from time to time determine. Each shareholder is entitled to one vote for each common share held on all matters submitted to a vote of shareholders. Cumulative voting for the election of directors is not provided for in our Memorandum of Association or Bye-laws, which means that the holders of a majority of the common shares voted can elect all of the directors then standing for election. Our Bye-laws provide for a staggered board of directors, with one-third of our non-executive directors being selected each year. The common shares are not entitled to preemptive rights and are not subject to conversion or redemption. Upon the occurrence of a liquidation, dissolution or winding-up, the holders of common shares would be entitled to share ratably in the distribution of all of our assets remaining available for distribution after satisfaction of all our liabilities.

#### **Shareholder Rights Plan**

Our board of directors has adopted a shareholder rights plan under which our shareholders received one right for each common share they held. Each right will entitle the holder to purchase from the Company a unit consisting of one one-hundredth of a share of our Series A Junior Participating Preferred Shares, or a combination of securities and assets of equivalent value, at an exercise price of \$127.00, subject to adjustment. The following summary description of the rights agreement does not purport to be complete and is qualified in its entirety by reference to the rights agreement between us and The Bank of New York, as rights agent, a copy of which is filed as an exhibit this Annual Report on Form 20-F and is incorporated herein by reference.

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If any person or group acquires shares representing 15% or more of our outstanding common shares, the flip-in provision of the rights agreement will be triggered and the rights will entitle a holder, other than such person, any member of such group or related person, as such rights will be null and void, to acquire a number of additional common shares having a market value of twice the exercise price of each right. In lieu of requiring payment of the purchase price upon exercise of the rights following any such event, we may permit the holders simply to surrender the rights, in which event they will be entitled to receive common shares (and other property, as the case may be) with a value of 50% of what could be purchased by payment of the full purchase price.

Until a right is exercised, the holder of the right, as such, will have no rights as a shareholder of our company, including, without limitation, no right to vote or to receive dividends. While the distribution of the rights will not be taxable to shareholders or to us, shareholders may, depending upon the circumstances, recognize taxable income in the event that the rights become exercisable for preferred shares (or other consideration) or for common shares of the acquiring or surviving company or in the event of the redemption of the rights as set forth above.

The existence of the rights agreement and the rights could deter a third party from tendering for the purchase of some or all of our common shares and could have the effect of entrenching management. In addition, they could have the effect of delaying or preventing changes of control of the ownership and management of our company, even if such transactions would have significant benefits to our shareholders.

**Bermuda Law**

We are an exempted company organized under the Companies Act 1981 of Bermuda. Bermuda law and our Memorandum of Association and Bye-laws govern the rights of our shareholders. Our objects and purposes are set forth in paragraph 6 and the Schedule to our Memorandum of Association. Our objects and purposes include to act and to perform all the functions of a holding company in all its branches and to coordinate the policy and administration of any subsidiary company or companies wherever incorporated or carrying on business or of any group of companies of which the Company or any subsidiary company is a member or which are in any manner controlled directly or indirectly by the Company. We refer you to our Memorandum of Association, which is filed as an exhibit to this annual report, for a full description of our objects and purposes. The Companies Act 1981 of Bermuda differs in some material respects from laws generally applicable to United States corporations and their shareholders. The following is a summary of the material provisions of Bermuda law and our organizational documents.

*Dividends.* Under Bermuda law, a company may pay dividends that are declared from time to time by its board of directors unless there are reasonable grounds for believing that the company is or would, after the payment, be unable to pay its liabilities as they become due or that the realizable value of its assets would then be less than the aggregate of its liabilities and issued share capital and share premium accounts.

*Voting rights.* Under Bermuda law, except as otherwise provided in the Companies Act 1981 of Bermuda or our Bye-laws, questions brought before a general meeting of shareholders are decided by a majority vote of shareholders present at the meeting. Our Bye-laws provide that, subject to the provisions of the Companies Act 1981 of Bermuda, any question proposed for the consideration of the shareholders will be decided in a general meeting by a simple majority of the votes cast, on a show of hands, with each shareholder present (and each person holding proxies for any shareholder) entitled to one vote for each common share held by the shareholder, except for special situations where a shareholder has lost the right to vote because he has failed to comply with the terms of a notice requiring him to provide information to the company pursuant to the Bye-laws, or his voting rights have been partly suspended under the Bye-laws as a consequence of becoming an interested person. In addition, a super-majority vote of not less than seventy-five percent (75%) of the votes cast at the meeting is required to effect any action related to the variation of class rights and a vote of not less than eighty percent (80%) of the votes cast at the meeting is required to effect any of the following actions: removal of directors, approval of business combinations with certain interested persons and for any alteration to the provisions of the Bye-laws relating to the staggered board, removal of directors and business combinations.

*Rights in liquidation.* Under Bermuda law, in the event of liquidation or winding up of a company, after satisfaction in full of all claims of creditors and subject to the preferential rights accorded to any series of preferred shares, the proceeds of the liquidation or winding up are distributed ratably among the holders of the company's common shares.

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*Meetings of shareholders.* Under Bermuda law, a company is required to convene at least one general shareholders' meeting each calendar year. Bermuda law provides that a special general meeting may be called by the board of directors and must be called upon the request of shareholders holding not less than 10% of the paid-up capital of the company carrying the right to vote. Bermuda law also requires that shareholders be given at least five (5) days' advance notice of a general meeting but the accidental omission to give notice to any person does not invalidate the proceedings at a meeting. Under our Bye-laws, we must give each shareholder at least ten (10) days' notice and no more than fifty (50) days' notice of the annual general meeting and of any special general meeting.

Under Bermuda law, the number of shareholders constituting a quorum at any general meeting of shareholders is determined by the Bye-laws of a company. Our Bye-laws provide that the presence in person or by proxy of two shareholders constitutes a quorum; but if we have only one shareholder, one shareholder present in person or by proxy shall constitute the necessary quorum.

*Access to books and records and dissemination of information.* Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda. These documents include a company's Certificate of Incorporation, its Memorandum of Association (including its objects and powers) and any alteration to its Memorandum of Association. The shareholders have the additional right to inspect the Bye-laws of the company, minutes of general meetings and the company's audited financial statements, which must be presented at the annual general meeting. The register of shareholders of a company is also open to inspection by shareholders without charge and by members of the general public on the payment of a fee. A company is required to maintain its share register in Bermuda but may, subject to the provisions of Bermuda law, establish a branch register outside Bermuda. We maintain a share register in Hamilton, Bermuda. A company is required to keep at its registered office a register of its directors and officers that is open for inspection for not less than two (2) hours each day by members of the public without charge. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records.

*Election or removal of directors.* Under Bermuda law and our Bye-laws, directors are elected or appointed at the annual general meeting and serve until re-elected or re-appointed or until their successors are elected or appointed, unless they are earlier removed or resign. Our Bye-laws provide for a staggered board of directors, with one-third of the non-executive directors selected each year.

Under Bermuda law and our Bye-laws, a director may be removed at a special general meeting of shareholders specifically called for that purpose, provided the director is served with at least 14 days' notice. The director has a right to be heard at that meeting. Any vacancy created by the removal of a director at a special general meeting may be filled at that meeting by the election of another director in his or her place or, in the absence of any such election, by the board of directors.

*Amendment of Memorandum of Association.* Bermuda law provides that the Memorandum of Association of a company may be amended by a resolution passed at a general meeting of shareholders of which due notice has been given. An amendment to the Memorandum of Association, other than an amendment which alters or reduces a company's share capital as provided in the Companies Act 1981 of Bermuda, also requires the approval of the Bermuda Minister of Finance, who may grant or withhold approval at his or her discretion. Generally, our Bye-laws may be amended by the directors with the approval of a majority vote of the shareholders in a general meeting. However, a super-majority vote is required for certain resolutions relating to the variation of class rights, the removal of directors, the approval of business combinations with certain interested persons and for any alteration to the provisions of the Bye-laws relating to the staggered board, removal of directors and business combinations.

Under Bermuda law, the holders of an aggregate of no less than 20% in par value of a company's issued share capital or any class of issued share capital have the right to apply to the Bermuda Court for an annulment of any amendment of the Memorandum of Association adopted by shareholders at any general meeting, other than an amendment which alters or reduces a company's share capital as provided in the Companies Act 1981 of Bermuda. Where such an application is made, the amendment becomes effective only to the extent that it is confirmed by the Bermuda Court. An application for the annulment of an amendment of the Memorandum of Association must be made within 21 days after the date on which the resolution altering the company's memorandum is passed and may be made on behalf of the persons entitled to make the application by one or more of their number as they may appoint in writing for the purpose. Persons voting in favor of the amendment may make no such application.

*Appraisal rights and shareholder suits.* Under Bermuda law, in the event of an amalgamation involving a Bermuda company, a shareholder who is not satisfied that fair value has been paid for his shares may apply to the Bermuda Court to appraise the fair value of his shares. The amalgamation of a company with another company requires the amalgamation agreement to be approved by the board of directors and, except where the amalgamation is between a holding company and one or more of its wholly owned subsidiaries or between two or more wholly owned subsidiaries, by meetings of the holders of shares of each company and of each class of such shares.



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Class actions and derivative actions are generally not available to shareholders under Bermuda law. The Bermuda Court, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's Memorandum of Association or Bye-laws. Further consideration would be given by the Bermuda Court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it.

When the affairs of a company are being conducted in a manner oppressive or prejudicial to the interests of some part of the shareholders, one or more shareholders may apply to the Bermuda Court for an order regulating the company's conduct of affairs in the future or compelling the purchase of the shares by any shareholder, by other shareholders or by the company.

*Anti-takeover effects of provisions of our charter documents.* Several provisions of our Bye-laws may have anti-takeover effects. These provisions are intended to avoid costly takeover battles, lessen our vulnerability to a hostile change of control and enhance the ability of our board of directors to maximize shareholder value in connection with any unsolicited offer to acquire us. However, these anti-takeover provisions, which are summarized below, could also discourage, delay or prevent (1) the merger or acquisition of our company by means of a tender offer, a proxy contest or otherwise, that a shareholder may consider in our best interest and (2) the removal of incumbent officers and directors.

*Blank check preferred shares.* Under the terms of our Bye-laws, our board of directors has authority, without any further vote or action by our shareholders, to issue preferred shares with terms and preferences determined by our board. Our board of directors may issue preferred shares on terms calculated to discourage, delay or prevent a change of control of our company or the removal of our management.

*Staggered board of directors.* Our Bye-laws provide for a staggered board of directors with one-third of our non-executive directors being selected each year. This staggered board provision could discourage a third party from making a tender offer for our shares or attempting to obtain control of our company. It could also delay shareholders who do not agree with the policies of the board of directors from removing a majority of the board of directors for two years.

*Transactions involving certain business combinations.* Our Bye-Laws prohibit the consummation of any business combination involving us and any interested person, unless the transaction is approved by a vote of a majority of 80% of those present and voting at a general meeting of our shareholders, unless:

the ratio of (i) the aggregate amount of cash and the fair market value of other consideration to be received per share in the business combination by holders of shares other than the interested person involved in the business combination, to (ii) the market price per share, immediately prior to the announcement of the proposed business combination, is at least as great as the ratio of (iii) the highest per share price, which the interested person has theretofore paid in acquiring any share prior to the business combination, to (iv) the market price per share immediately prior to the initial acquisition by the interested person of any shares;

the aggregate amount of the cash and the fair market value of other consideration to be received per share in the business combination by holders of shares other than the interested person involved in the business combination (i) is not less than the highest per share price paid by the interested person in acquiring any shares, and (ii) is not less than the consolidated earnings per share of our company for our four full consecutive fiscal quarters immediately preceding the record date for solicitation of votes on the business combination multiplied by the then price/earnings multiple (if any) of the interested person as customarily computed and reported in the financial community;

the consideration (if any) to be received in the business combination by holders of shares other than the interested person involved shall, except to the extent that a shareholder agrees otherwise as to all or part of the shares which the shareholder owns, be in the same form and of the same kind as the consideration paid by the interested person in acquiring shares already owned by it;

after the interested person became an interested person and prior to the consummation of the business combination: (i) such interested person shall have taken steps to ensure that the board includes at all





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times representation by continuing directors proportionate in number to the ratio that the number of shares carrying voting rights in our company from time to time owned by shareholders who are not interested persons bears to all shares carrying voting rights in our company outstanding at the time in question (with a continuing director to occupy any resulting fractional position among the directors); (ii) the interested person shall not have acquired from us or any of our subsidiaries, directly or indirectly, any shares (except (x) upon conversion of convertible securities acquired by it prior to becoming an interested person, or (y) as a result of a pro rata share dividend, share split or division or subdivision of shares, or (z) in a transaction consummated on or after June 7, 2001 and which satisfied all requirements of our Bye-laws); (iii) the interested person shall not have acquired any additional shares, or rights over shares, carrying voting rights or securities convertible into or exchangeable for shares, or rights over shares, carrying voting rights except as a part of the transaction which resulted in the interested person becoming an interested person; and (iv) the interested person shall not have (x) received the benefit, directly or indirectly (except proportionately as a shareholder), of any loans, advances, guarantees, pledges or other financial assistance or tax credits provided by us or any subsidiary of ours, or (y) made any major change in our business or equity capital structure or entered into any contract, arrangement or understanding with us except any change, contract, arrangement or understanding as may have been approved by the favorable vote of not less than a majority of the continuing directors; and

a proxy statement complying with the requirements of the U.S. Securities Exchange Act of 1934, as amended, shall have been mailed to all holders of shares carrying voting rights for the purpose of soliciting approval by the shareholders of the business combination. The proxy statement shall contain at the front thereof, in a prominent place, any recommendations as to the advisability (or inadvisability) of the business combination which the continuing directors, or any of them, may have furnished in writing and, if deemed advisable by a majority of the continuing directors, an opinion of a reputable investment banking firm as to the adequacy (or inadequacy) of the terms of the business combination from the point of view of the holders of shares carrying voting rights other than any interested person (the investment banking firm to be selected by a majority of the continuing directors, to be furnished with all information it reasonably requests, and to be paid a reasonable fee for its services upon receipt by us of the opinion).

For purposes of this provision, a business combination includes mergers, consolidations, exchanges, asset sales, leases and other transactions resulting in a financial benefit to the interested shareholder and an interested person is any person or entity that beneficially owns 15% or more of our outstanding voting shares and any person or entity affiliated with or controlling or controlled by that person or entity. Continuing directors means directors who have been elected before June 7, 2001 or designated as continuing directors by the majority of the then continuing directors.

*Consequences of becoming an interested person.* Our Bye-Laws provide that, at any time a person acquires or becomes the beneficial owner of 15% or more of our voting shares, which we refer to as the threshold, then the person will not be entitled to exercise voting rights for the number of common shares in excess of the threshold he holds or beneficially owns. This disability applies to any general meeting of our company as to which the record date or scheduled meeting date falls within a period of five years from the date such person acquired beneficial ownership of a number of common shares in excess of the threshold.

The above restrictions do not apply to us, our subsidiaries or to:

any person who on June 7, 2001 was the holder or beneficial owner of a number of shares carrying voting rights that exceeded the threshold and who continues at all times after June 7, 2001 to hold shares in excess of the threshold; and

any person whose acquisition of a number of shares exceeding the threshold has been approved by (1) a majority of 80% of those present and voting at a general meeting or (2) by a resolution adopted by the continuing directors, followed by a resolution adopted by a shareholder vote in excess of 50% of the voting shares not owned by such interested person.

*Transfer agent and registrar.* The Bank of New York Mellon serves as transfer agent and registrar for our common shares.

*New York Stock Exchange listing.* Our common shares are listed on the New York Stock Exchange under the ticker symbol TNP.

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*Other listings.* Our common shares were listed on the Oslo Børs under the symbol TEN until a voluntary de-listing on March 18, 2005 and on the Bermuda Stock Exchange under the symbol TEN. Our common shares are no longer actively traded on either of these exchanges.

### **Material Contracts**

See description of Management Agreement under Item 4. Information on the Company Management Contract Executive and Commercial Management. Such description is not intended to be complete and reference is made to the contract itself, which is an exhibit to this Annual Report on Form 20-F.

### **Exchange Controls**

Under Bermuda and Greek law, there are currently no restrictions on the export or import of capital, including foreign exchange controls, or restrictions that affect the remittance of dividends, interest or other payments to nonresident holders of our common shares.

## **TAX CONSIDERATIONS**

### **Taxation of Tsakos Energy Navigation Limited**

We believe that none of our income will be subject to tax in Bermuda, which currently has no corporate income tax, or by other countries in which we conduct activities or in which our customers are located, excluding the United States. However, this belief is based upon the anticipated nature and conduct of our business which may change, and upon our understanding of our position under the tax laws of the various countries in which we have assets or conduct activities, which position is subject to review and possible challenge by taxing authorities and to possible changes in law, which may have retroactive effect. The extent to which certain taxing jurisdictions may require us to pay tax or to make payments in lieu of tax cannot be determined in advance. In addition, payments due to us from our customers may be subject to withholding tax or other tax claims in amounts that exceed the taxation that we might have anticipated based upon our current and anticipated business practices and the current tax regime.

### **Bermuda tax considerations**

Under current Bermuda law, we are not subject to tax on income or capital gains. Furthermore, we have obtained from the Minister of Finance of Bermuda, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, an undertaking that, in the event that Bermuda enacts any legislation imposing tax computed on profits or income or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of such tax will not be applicable to us or to any of our operations, or to the shares, capital or common stock of Tsakos Energy Navigation, until March 28, 2016. This undertaking does not, however, prevent the imposition of property taxes on any company owning real property or leasehold interests in Bermuda or on any person ordinarily resident in Bermuda. We pay an annual government fee on our authorized share capital and share premium, which for 2009 is \$10,455. Under current Bermuda law, shareholders not ordinarily resident in Bermuda will not be subject to any income, withholding or other taxes or stamp or other duties upon the issue, transfer or sale of common shares or on any payments made on common shares.

### **United States federal income tax considerations**

The following is a summary of the material United States federal income tax considerations that apply to (1) our operations and the operations of our vessel-operating subsidiaries and (2) the acquisition, ownership and disposition of common shares by a shareholder that is a United States holder. This summary is based upon our beliefs and expectations concerning our past, current and anticipated activities, income and assets and those of our subsidiaries, the direct, indirect and constructive ownership of our shares and the trading and quotation of our shares. Should any such beliefs or expectations prove to be incorrect, the conclusions described herein could be adversely affected. For purposes of this discussion, a United States holder is a beneficial owner of common shares who or which is:

an individual citizen or resident of the United States;

a corporation, or other entity taxable as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or any of its political subdivisions; or

an estate or trust the income of which is subject to United States federal income taxation regardless of its source.

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This summary deals only with common shares that are held as capital assets by a United States holder, and does not address tax considerations applicable to United States holders that may be subject to special tax rules, such as:

dealers or traders in securities or currencies;

financial institutions;

insurance companies;

tax-exempt entities;

United States holders that hold common shares as a part of a straddle or conversion transaction or other arrangement involving more than one position;

United States holders that own, or are deemed for United States tax purposes to own, ten percent or more of the total combined voting power of all classes of our voting stock;

a person subject to United States federal alternative minimum tax;

a partnership or other entity classified as a partnership for United States federal income tax purposes;

United States holders that have a principal place of business or tax home outside the United States; or

United States holders whose functional currency is not the United States dollar.

The discussion below is based upon the provisions of the Internal Revenue Code and regulations, administrative pronouncements and judicial decisions as of the date of this Annual Report; any such authority may be repealed, revoked or modified, perhaps with retroactive effect, so as to result in federal income tax consequences different from those discussed below.

Because United States tax consequences may differ from one holder to the next, the discussion set out below does not purport to describe all of the tax considerations that may be relevant to you and your particular situation. Accordingly, you are advised to consult your own tax advisor as to the United States federal, state, local and other tax consequences of investing in the common shares.

### ***Taxation of our operations***

#### ***In General***

Unless exempt from United States federal income taxation under the rules discussed below, a foreign corporation is subject to United States federal income taxation in respect of any income that is derived from the use of vessels, from the hiring or leasing of vessels for use on a time, voyage or bareboat charter basis, from the participation in a pool, partnership, strategic alliance, joint operating agreement, code sharing arrangements or other joint venture it directly or indirectly owns or participates in that generates such income, or from the performance of services directly related to those uses, which we refer to as shipping income, to the extent that the shipping income is derived from sources within the United States. For these purposes, 50% of shipping income that is attributable to transportation that begins or ends, but that does not

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both begin and end, in the United States constitutes income from sources within the United States, which we refer to as U.S.-source shipping income.

Shipping income attributable to transportation that both begins and ends in the United States is considered to be 100% from sources within the United States. We do not expect that we or any of our subsidiaries will engage in transportation that produces income which is considered to be 100% from sources within the United States.

Shipping income attributable to transportation exclusively between non-United States ports will be considered to be 100% derived from sources outside the United States. Shipping income derived from sources outside the United States will not be subject to any United States federal income tax.

In the absence of exemption from tax under Section 883, our gross U.S.-source shipping income would be subject to a 4% tax imposed without allowance for deductions as described below.

### *Exemption of Operating Income from United States Federal Income Taxation*

Under Section 883, we and our subsidiaries will be exempt from United States federal income taxation on our U.S.-source shipping income if:

we and the relevant subsidiary are each organized in a foreign country (our country of organization ) that grants an equivalent exemption to corporations organized in the United States; and

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either:

more than 50% of the value of our stock is owned, directly or indirectly, by qualified stockholders, individuals who are (i) residents of our country of organization or of another foreign country that grants an equivalent exemption to corporations organized in the United States and (ii) satisfy certain documentation requirements, which we refer to as the 50% Ownership Test, or

our common shares are primarily and regularly traded on an established securities market in our country of organization, in another country that grants an equivalent exemption to United States corporations, or in the United States, which we refer to as the Publicly-Traded Test.

We believe that each of Bermuda, Cyprus, Liberia and Panama, the jurisdictions where we and our ship-owning subsidiaries are incorporated, grants an equivalent exemption to United States corporations. Therefore, we believe that we will be exempt from United States federal income taxation with respect to our U.S.-source shipping income if we satisfy either the 50% Ownership Test or the Publicly-Traded Test.

Due to the widely-held nature of our stock, we will have difficulty satisfying the 50% Ownership Test. Our ability to satisfy the Publicly-Traded Test is discussed below.

The regulations provide, in pertinent part, that stock of a foreign corporation will be considered to be primarily traded on an established securities market if the number of shares of each class of stock that are traded during any taxable year on all established securities markets in that country exceeds the number of shares in each such class that are traded during that year on established securities markets in any other single country. Our common shares, which are our sole class of our issued and outstanding shares, were primarily traded on the New York Stock Exchange in 2008 and we expect that will continue to be the case in subsequent years.

Under the regulations, our stock will be considered to be regularly traded on an established securities market if one or more classes of our stock representing more than 50% of our outstanding shares, by total combined voting power of all classes of stock entitled to vote and total value, is listed on the market, which we refer to as the listing requirement. Since our common shares, which are our sole class of issued and outstanding shares, were listed on the New York Stock Exchange throughout 2008 we satisfied the listing requirement for 2008. We expect that we will continue to do so for subsequent years.

It is further required that with respect to each class of stock relied upon to meet the listing requirement (i) such class of the stock is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year or  $\frac{1}{6}$  of the days in a short taxable year; and (ii) the aggregate number of shares of such class of stock traded on such market is at least 10% of the average number of shares of such class of stock outstanding during such year or as appropriately adjusted in the case of a short taxable year. We believe our common shares satisfied the trading frequency and trading volume tests for 2008 and will also do so in subsequent years. Even if this were not the case, the regulations provide that the trading frequency and trading volume tests will be deemed satisfied by a class of stock if, as we believe was the case with our common shares in 2008 and we expect to be the case with our common shares in subsequent years, such class of stock is traded on an established market in the United States and such class of stock is regularly quoted by dealers making a market in such stock.

Notwithstanding the foregoing, the regulations provide, in pertinent part, that our common shares will not be considered to be regularly traded on an established securities market for any taxable year in which 50% or more of our outstanding common shares are owned, actually or constructively under specified stock attribution rules, on more than half the days during the taxable year by persons who each own 5% or more of our common shares, which we refer to as the 5 Percent Override Rule.

For purposes of being able to determine the persons who own 5% or more of our stock, or 5% Stockholders, the regulations permit us to rely on Schedule 13G and Schedule 13D filings with the United States Securities and Exchange Commission, or the SEC, to identify persons who have a 5% or more beneficial interest in our common shares. The regulations further provide that an investment company which is registered under the Investment Company Act of 1940, as amended, will not be treated as a 5% Stockholder for such purposes.

In the event the 5 Percent Override Rule is triggered, the regulations provide that the 5 Percent Override Rule will nevertheless not apply if we can establish, in accordance with specified ownership certification procedures, that a sufficient portion of the common shares within the closely-held block are owned, actually or under applicable constructive ownership rules, by qualified shareholders for purposes of Section 883 to preclude the common shares in the closely-held block that are not so owned from constituting 50% or more of the our common shares for more than half the number of days during the taxable year.





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We do not believe that we were subject to the 5 Percent Override Rule for 2008. Therefore, we believe that we satisfied the Publicly-Traded Test for 2008. However, there is no assurance that we will continue to satisfy the Publicly-Traded Test. If we were to be subject to the 5 Percent Override Rule for a tax year, then our ability and that of our subsidiaries to qualify for the benefits of Section 883 would depend upon our ability to establish, in accordance with specified ownership certification procedures, that a sufficient portion of the common shares within the closely-held block are owned, actually or under applicable constructive ownership rules, by qualified shareholders for purposes of Section 883 to preclude the common shares in the closely-held block that are not so owned from constituting 50% or more of the our common shares for more than half the number of days during the tax year, and there can be no assurance that we would be able to establish that. Thus there can be no assurance that we or our subsidiaries will qualify for the benefits of Section 883 for any subsequent tax year.

*Taxation in Absence of Exemption*

To the extent the benefits of Section 883 are unavailable, our U.S.-source shipping income, to the extent not considered to be effectively connected with the conduct of a United States trade or business, as described below, would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions. Since under the sourcing rules described above, no more than 50% of our shipping income would be treated as being derived from United States sources, the maximum effective rate of United States federal income tax on our shipping income would never exceed 2% under the 4% gross basis tax regime.

To the extent the benefits of the Section 883 exemption are unavailable and our U.S.-source shipping income or that of any of our subsidiaries is considered to be effectively connected with the conduct of a United States trade or business, as described below, any such effectively connected U.S.-source shipping income, net of applicable deductions, would be subject to the United States federal corporate income tax currently imposed at rates of up to 35%. In addition, we or our subsidiaries may be subject to the 30% branch profits taxes on earnings effectively connected with the conduct of such trade or business, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to the conduct of its United States trade or business.

U.S.-source shipping income would be considered effectively connected with the conduct of a United States trade or business only if:

we or one of our subsidiaries has, or is considered to have, a fixed place of business in the United States involved in the earning of shipping income; and

(i) in the case of shipping income other than that derived from bareboat charters, substantially all of our or such subsidiary's U.S.-source shipping income is attributable to regularly scheduled transportation, such as the operation of a vessel that follows a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States and (ii) in the case of shipping income from bareboat charters, substantially all of our or such subsidiary's income from bareboat charters attributable to a fixed place of business in the U.S.

We do not intend that we or any of our subsidiaries will have any vessel operating to the United States on a regularly scheduled basis. Based on the foregoing and on the expected mode of our shipping operations and other activities, we believe that none of the U.S.-source shipping income of us or our subsidiaries will be effectively connected with the conduct of a United States trade or business.

*United States Taxation of Gain on Sale of Vessels*

Regardless of whether we or our subsidiaries qualify for exemption under Section 883, we and our subsidiaries will not be subject to United States federal income taxation with respect to gain realized on a sale of a vessel, provided the sale is considered to occur outside of the United States under United States federal income tax principles. In general, a sale of a vessel will be considered to occur outside of the United States for this purpose if title to the vessel, and risk of loss with respect to the vessel, pass to the buyer outside of the United States. It is expected that any sale of a vessel by us or our subsidiaries will be considered to occur outside of the United States.

**Table of Contents*****United States Holders******Distributions***

Subject to the discussion below under **Passive Foreign Investment Company Considerations**, distributions that we make with respect to the common shares, other than distributions in liquidation and distributions in redemption of stock that are treated as exchanges, will be taxed to United States holders as dividend income to the extent that the distributions do not exceed our current and accumulated earnings and profits (as determined for United States federal income tax purposes). Distributions, if any, in excess of our current and accumulated earnings and profits will constitute a nontaxable return of capital to a United States holder and will be applied against and reduce the United States holder's tax basis in its common shares. To the extent that distributions in excess of our current and accumulated earnings and profits exceed the tax basis of the United States holder in its common shares, the excess generally will be treated as capital gain.

Qualifying dividends received by individuals in taxable years beginning prior to January 1, 2011 are eligible for taxation at capital gains rates (currently 15% for individuals not eligible for a lower rate). We are a non-United States corporation for U.S. federal income tax purposes. Dividends paid by a non-United States corporation are eligible to be treated as qualifying dividends only if (i) the non-United States corporation is incorporated in a possession of the United States, (ii) the non-United States corporation is eligible for the benefits of a comprehensive income tax treaty with the United States or (iii) the stock with respect to which the dividends are paid is readily tradable on an established securities market in the United States. We will not satisfy either of the conditions described in clauses (i) and (ii) of the preceding sentence. We expect that distributions on our common shares that are treated as dividends will qualify as dividends on stock that is readily tradable on an established securities market in the United States so long as our common shares are traded on the New York Stock Exchange. In addition, dividends paid by a non-United States corporation will not be treated as qualifying dividends if the non-United States corporation is a passive foreign investment company (a PFIC) for the taxable year of the dividend or the prior taxable year. Our potential treatment as a PFIC is discussed below under the heading **Passive Foreign Investment Company Considerations**. A dividend will also not be treated as a qualifying dividend to the extent that (i) the shareholder does not satisfy a holding period requirement that generally requires that the shareholder hold the shares on which the dividend is paid for more than 60 days during the 121-day period that begins on the date which is sixty days before the date on which the shares become ex-dividend with respect to such dividend, (ii) the shareholder is under an obligation to make related payments with respect to substantially similar or related property or (iii) such dividend is taken into account as investment income under Section 163(d)(4)(B) of the Internal Revenue Code. Legislation has been proposed in the United States Congress which, if enacted in its current form, would likely cause dividends on our shares to be ineligible for the preferential tax rates described above. There can be no assurance regarding whether, or in what form, such legislation will be enacted.

Special rules may apply to any extraordinary dividend, generally a dividend in an amount which is equal to or in excess of ten percent of a shareholder's adjusted basis (or fair market value in certain circumstances) in a common share paid by us. If we pay an extraordinary dividend on our common shares and such dividend is treated as qualified dividend income, then any loss derived by a U.S. Individual Holder from the sale or exchange of such common shares will be treated as long-term capital loss to the extent of such dividend.

Dividend income derived with respect to the common shares generally will constitute portfolio income for purposes of the limitation on the use of passive activity losses, and, therefore, generally may not be offset by passive activity losses, and, unless treated as qualifying dividends as described above (for taxable years beginning before January 1, 2011), investment income for purposes of the limitation on the deduction of investment interest expense. Dividends that we pay will not be eligible for the dividends received deduction generally allowed to United States corporations under Section 243 of the Internal Revenue Code.

For foreign tax credit purposes, if at least 50 percent of our stock by voting power or by value is owned, directly, indirectly or by attribution, by United States persons, then, subject to the limitation described below, a portion of the dividends that we pay in each taxable year will be treated as United States-source income, depending in general upon the ratio for that taxable year of our United States-source earnings and profits to our total earnings and profits. The remaining portion of our dividends (or all of our dividends, if we do not meet the 50 percent test described above) will be treated as foreign-source income and generally will be treated as passive category income or, in the case of certain types of United States Holders, general category income for purposes of computing allowable foreign tax credits for United States federal income tax purposes. However, if, in any taxable year, we have earnings and profits and less than ten percent of those earnings and profits are from United States sources, then, in general, dividends that we pay from our earnings and profits for that taxable year will be treated entirely as

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foreign-source income. Where a United States holder that is an individual receives a dividend on our shares that is a qualifying dividend (as described in the second preceding paragraph) in a taxable year beginning before January 1, 2011, special rules will apply that will limit the portion of such dividend that will be included in such individual's foreign source taxable income and overall taxable income for purposes of calculating such individual's foreign tax credit limitation.

*Sale or Exchange*

Subject to the discussion below under *Passive Foreign Investment Company Considerations*, upon a sale or exchange of common shares to a person other than us or certain entities related to us, a United States holder will recognize gain or loss in an amount equal to the difference between the amount realized on the sale or exchange and the United States holder's adjusted tax basis in the common shares. Any gain or loss recognized will be capital gain or loss and will be long-term capital gain or loss if the United States holder has held the common shares for more than one year.

Gain or loss realized by a United States holder on the sale or exchange of common shares generally will be treated as United States-source gain or loss for United States foreign tax credit purposes.

*Passive Foreign Investment Company Considerations*

*PFIC Classification.* Special and adverse United States tax rules apply to a United States holder that holds an interest in a PFIC. In general, a PFIC is any foreign corporation, if (1) 75 percent or more of the gross income of the corporation for the taxable year is passive income (the PFIC income test) or (2) the average percentage of assets held by the corporation during the taxable year that produce passive income or that are held for the production of passive income is at least 50 percent (the PFIC asset test). In applying the PFIC income test and the PFIC asset test, a corporation that owns, directly or indirectly, at least 25 percent by value of the stock of a second corporation must take into account its proportionate share of the second corporation's income and assets.

If a corporation is classified as a PFIC for any year during which a United States person is a shareholder, then the corporation generally will continue to be treated as a PFIC with respect to that shareholder in all succeeding years, regardless of whether the corporation continues to meet the PFIC income test or the PFIC asset test, subject to elections to recognize gain that may be available to the shareholder.

To date, we and our subsidiaries have derived most of our income from time and voyage charters, and we expect to continue to do so. We believe that this income should be treated as services income, which is not treated as passive income for PFIC purposes. On this basis, we do not believe that we were treated as a PFIC for our most recent taxable year or that we will be treated as a PFIC for any subsequent taxable year. This conclusion is based in part upon our beliefs regarding our past assets and income and our current projections and expectations as to our future business activity, including, in particular, our expectation that the proportion of our income derived from bareboat charters will not materially increase. Moreover, the IRS or a court may disagree with the conclusion that time and voyage charters do not give rise to passive income (and that the related vessels are not passive assets) for purposes of the PFIC rules. In this regard we note that, while there is no authority specifically under the PFIC rules regarding the characterization of time or voyage charters as leases or service contracts and there are older authorities in other areas of the tax law that tend to support our position regarding time and voyage charters, a recent federal court decision addressing the characterization of time charters concludes that they constitute leases for federal income tax purposes and employs an analysis which, if applied to our time or voyage charters, could result in our treatment as a PFIC. Accordingly, we can provide no assurance that we will not be treated as a PFIC for our most recent taxable year or for any subsequent taxable year.

*Consequences of PFIC Status.* If we are treated as a PFIC for any taxable year during which a United States holder holds our common shares, then, subject to the discussion of the qualified electing fund ( QEF ) and mark-to-market rules below, the United States holder will be subject to a special and adverse tax regime in respect of (1) gains realized on the sale or other disposition of our common shares and (2) distributions on our common shares to the extent that those distributions are treated as excess distributions. An excess distribution generally includes dividends or other distributions received from a PFIC in any taxable year of a United States holder to the extent that the amount of those distributions exceeds 125 percent of the average distributions made by the PFIC during a specified base period. A United States holder that is subject to the PFIC rules (1) will be required to allocate excess distributions received in respect of our common shares and gain realized on the sale of common shares to each day during the United States holder's holding period for the common shares, (2) will be required to include in income as ordinary income the portion of the excess distribution or gain that is allocated to the current taxable year and to certain pre-PFIC years, and (3) will be taxable at the highest rate of taxation applicable to ordinary income for the prior years, other than pre-PFIC years, to which the excess distribution or gain is allocable, without regard to the United States holder's other items of income and loss for such prior taxable years ( deferred tax ). The deferred tax for each prior year will be increased by an interest charge for the period from the due date for tax returns for the prior year to the due date for tax returns for the year of the excess distribution or gain, computed at the rates that apply to underpayments of tax. Pledges of PFIC shares will be treated as dispositions for purposes of the foregoing rules. In addition, a United States holder who acquires common shares from a decedent prior to 2010 generally will not receive a stepped-up basis in the common shares. Instead, the United States

holder will have a tax basis in the common shares equal to the lower of the fair market value of the common shares and the decedent's basis.

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If we are treated as a PFIC for any taxable year during which a United States holder holds our common shares and one of our subsidiaries also qualifies as a PFIC for such year, then such United States holder may also be subject to the PFIC rules with respect to its indirect interest in such subsidiary. No mark-to-market election will be available with respect to the indirect interest in the shares of such subsidiary and we currently do not intend to comply with reporting requirements necessary to permit the making of QEF elections in such circumstances.

*QEF Election.* In some circumstances, a United States holder may avoid the unfavorable consequences of the PFIC rules by making a QEF election with respect to us. A QEF election effectively would require an electing United States holder to include in income currently its pro rata share of our ordinary earnings and net capital gain. However, a United States holder cannot make a QEF election with respect to us unless we comply with certain reporting requirements and we currently do not intend to provide the required information.

*Mark-to-Market Election.* A United States holder that holds marketable stock in a PFIC may, in lieu of making a QEF election, avoid some of the unfavorable consequences of the PFIC rules by electing to mark the PFIC stock to market as of the close of each taxable year. The common shares will be treated as marketable stock for a calendar year if the common shares are traded on the New York Stock Exchange, in other than de minimis quantities, on at least 15 days during each calendar quarter of the year. A United States holder that makes the mark-to-market election generally will be required to include in income each year as ordinary income an amount equal to the increase in value of the common shares for that year, regardless of whether the United States holder actually sells the common shares. The United States holder generally will be allowed a deduction for the decrease in value of the common shares for the taxable year, to the extent of the amount of gain previously included in income under the mark-to-market rules, reduced by prior deductions under the mark-to-market rules. Any gain from the actual sale of the PFIC stock will be treated as ordinary income, and any loss will be treated as ordinary loss to the extent of net mark-to-market gains previously included in income and not reversed by prior deductions.

*Other PFIC Elections.* If a United States holder held our stock during a period when we were treated as a PFIC but the United States holder did not have a QEF election in effect with respect to us, then in the event that we failed to qualify as a PFIC for a subsequent taxable year, the United States holder could elect to cease to be subject to the rules described above with respect to those shares by making a deemed sale or, in certain circumstances, a deemed dividend election with respect to our stock. If the United States holder makes a deemed sale election, the United States holder will be treated, for purposes of applying the rules described above under the heading Consequences of PFIC Status, as having disposed of our stock for its fair market value on the last day of the last taxable year for which we qualified as a PFIC (the termination date). The United States holder would increase his, her or its basis in such common stock by the amount of the gain on the deemed sale described in the preceding sentence. Following a deemed sale election, the United States holder would not be treated, for purposes of the PFIC rules, as having owned the common stock during a period prior to the termination date when we qualified as a PFIC.

If we were treated as a controlled foreign corporation for United States federal income tax purposes for the taxable year that included the termination date, then a United States holder could make a deemed dividend election with respect to our common stock. If a deemed dividend election is made, the United States holder is required to include in income as a dividend his, her or its pro rata share (based on all of our stock held by the United States holder, directly or under applicable attribution rules, on the termination date) of our post-1986 earnings and profits as of the close of the taxable year that includes the termination date (taking only earnings and profits accumulated in taxable years in which we were a PFIC into account). The deemed dividend described in the preceding sentence is treated as an excess distribution for purposes of the rules described above under the heading Consequences of PFIC Status. The United States holder would increase his, her or its basis in our stock by the amount of the deemed dividend. Following a deemed dividend election, the United States holder would not be treated, for purposes of the PFIC rules, as having owned the stock during a period prior to the termination date when we qualified as a PFIC. For purposes of determining whether the deemed dividend election is available, we generally will be treated as a controlled foreign corporation for a taxable year when, at any time during that year, United States persons, each of whom owns, directly or under applicable attribution rules, shares having 10% or more of the total voting power of our stock, in the aggregate own, directly or under applicable attribution rules, shares representing more than 50% of the voting power or value of our stock.

A deemed sale or deemed dividend election must be made on the United States holder's original or amended return for the shareholder's taxable year that includes the termination date and, if made on an amended return, such amended return must be filed not later than the date that is three years after the due date of the original return for such taxable year. Special rules apply where a person is treated, for purposes of the PFIC rules, as indirectly owning our common stock.

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You are urged to consult your own tax advisor regarding our possible classification as a PFIC, as well as the potential tax consequences arising from the ownership and disposition, directly or indirectly, of interests in a PFIC.

### ***Information Reporting and Backup Withholding***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and backup withholding unless (i) you are a corporation or other exempt recipient or (ii) in the case of backup withholding, you provide a correct taxpayer identification number and certify that you are not subject to backup withholding.

The amount of any backup withholding from a payment to you will be allowed as a credit against your United States federal income tax liability and may entitle you to a refund, provided that the required information is furnished to the Internal Revenue Service

### **Documents on Display**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information as a foreign private issuer with the SEC. You may inspect and copy our public filings without charge at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. You may obtain copies of all or any part of such materials from the SEC upon payment of prescribed fees. You may also inspect reports and other information regarding registrants, such as us, that file electronically with the SEC without charge at a web site maintained by the SEC at <http://www.sec.gov>. In addition, material filed by Tsakos Energy Navigation can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

### **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

*Our risk management policy.* Our policy is to continuously monitor our exposure to business risks, including the impact of changes in interest rates, currency rates, and bunker prices on earnings and cash flows. We intend to assess these risks and, when appropriate, enter into derivative contracts with creditworthy counter parties to minimize our exposure to these risks. As part of our efforts to manage our risk, we have in the past entered into derivative contracts for both hedging and, periodically, trading purposes.

In August 2001, we created a Risk Committee, which is comprised of our finance director and a standing committee of the board of directors. The primary role of the Risk Committee is to:

continuously review and assess all activities that may generate exposure to risk and ensure we are taking appropriate measures;

ensure that our policies and procedures for evaluating and managing risks are effective and do not significantly increase overall risk;  
and

assess the effectiveness of derivative contracts and recommend, if necessary, the early termination of any contract.

Our risk management policy provides for the following procedures:

All recommendations to enter into a derivative contract must originate either from qualified officers or directors of the company or from equivalent specialized officers of our technical manager;

All recommendations to enter into a derivative contract must be reviewed by a combined team of officers and advice is taken, as applicable, from third-party sources (e.g., our bankers, other banks, bunker brokers, insurers, etc.);

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Any recommendation must be formalized into a specific proposal which defines the risks to be managed, the action to be implemented, and the benefits and potential risks of the proposed derivative contract, which proposal shall be presented to the risk committee; and

All derivative contracts must be approved by the Risk Committee and the board of directors.

**Table of Contents***Interest rate risk*

The Company is exposed to market risk from changes in interest rates, which could impact its results of operations, financial condition and cash flow. The Company manages its ratio of fixed to floating rate debt with the objective of achieving a mix that reflects management's interest rate outlook. As of March 31, 2009 we have \$769 million in effective hedging swaps and a further \$147 million in interest rate swaps that do not currently meet hedging criteria. The annualized impact in terms of swap related interest payable resulting from a one-percentage point increase in interest rates would be an increase of approximately \$9.2 million in earnings and cash flow. The annualized impact resulting from a one-percentage point decrease in interest rates would be a decrease of approximately \$9.2 million in earnings and cash flow.

The table below provides information about our financial instruments at December 31, 2008, which are sensitive to changes in interest rate, including our debt and interest rate swaps. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. Weighted-average variable rates are based on the implied forward rates in the yield curves at the reporting date. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contracts.

	Balance as of Dec. 31, 2008	2009	2010	Expected Maturities (1)			Thereafter
				2011	2012	2013	
		(In millions of U.S. dollars, except percentages)					
<b>Long-Term Debt:</b>							
Fixed Rate Debt	106.0	10.6	10.6	10.6	10.6	10.6	53.0
Weighted Average Interest Rate	5.19%	5.19%	5.19%	5.19%	5.19%	5.19%	5.19%
Variable Rate Debt (2)	1,407.6	81.2	92.1	94.6	94.6	135.6	909.5
Weighted Average Interest Rate	4.02%	2.66%	1.56%	2.94%	3.18%	3.52%	3.66%
	1,513.6	91.8	102.7	105.2	105.2	146.2	962.5
<b>Interest Rate Swaps (or Derivatives):</b>							
Interest rate swaps variable to fixed							
Notional Amount at December 31, 2008	631.6	36.0	36.0	41.0	375.3	143.3	
Average Pay Rate	4.83%	4.83%	4.13%	4.84%	3.96%	3.96%	
Average Receive Rate	3.34%	2.81%	1.28%	1.84%	2.49%	2.81%	
Cap and Floor Options							
Notional Amount	290.5	10.0	16.9	95.4	22.7	22.7	122.8
Average Pay Rate (2)	4.61%	4.59%	4.66%	4.73%	4.83%	4.87%	4.98%
Average Receive Rate	3.68%	2.90%	1.36%	1.72%	2.46%	2.77%	2.86%
	922.1	46.0	52.9	136.4	398.0	166.0	122.8

(1) These are the expected maturities based on the balances as of December 31, 2008.

(2) Interest Payments on U.S. Dollar denominated debt and interest rate swaps are based on LIBOR.

*Bunker price risk*

During 2008, the Company had no swap arrangements relating to the price of bunker (vessel fuel).

*Foreign exchange rate fluctuation*

The currency the international tanker industry is primarily using is the U.S. dollar. Virtually all of our revenues are in U.S. dollars and the majority of our operating costs are incurred in U.S. dollars. We incur certain operating expenses in foreign currencies, the most significant of which are in Euros. During fiscal 2008, approximately 20% of the total of our vessel and voyage costs, overhead and dry-dock expenditures were denominated in Euro. Based on 2008 Euro expenditure, therefore, we estimate that for every 1% change in the Euro/U.S. dollar rate there would be a 0.3% impact on vessel operating expenses and a 0.4% impact on general and administrative expenses and minimal impact on other cost categories apart from dry-docking which would depend on the location of the selected yard. However, we have the ability to shift our purchase of goods and services from





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one country to another and, thus, from one currency to another in order to mitigate the effects of exchange rate fluctuations. We have a policy of continuously monitoring and managing our foreign exchange exposure. On occasion, we do directly purchase amounts of Euro with U.S. dollars, but to date, we have not engaged in any foreign currency hedging transactions, as we do not believe we have had material risk exposure to foreign currency fluctuations.

*Inflation*

Although inflation has had a moderate impact on operating expenses, dry docking expenses and corporate overhead, our management does not consider inflation to be a significant risk to direct costs in the current and foreseeable economic environment. However, if inflation becomes a significant factor in the world economy, inflationary pressures could result in increased operating and financing costs.

**Item 12. Description of Securities Other than Equity Securities**

Not Applicable.

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**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

Not Applicable.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**Item 15. Controls and Procedures**

**A. Evaluation of Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this annual report. Based on that evaluation, the chief executive officer and the chief financial officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this annual report were designed and were functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to the Company's management, including our chief executive officer and chief financial officer and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

The Company believes that a system of controls, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

**B. Management's Annual Report on Internal Control over Financial Reporting**

The management of Tsakos Energy Navigation Limited and its subsidiaries (the Company), according to Rule 13a-15(f) of the Securities Exchange Act of 1934, is responsible for the establishment and maintenance of adequate internal controls over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. However, in any system of internal control there are inherent limitations and consequently internal control over financial reporting may not absolutely prevent or detect misstatements.

The Company's system of internal control over financial reporting includes policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (iii)

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provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management has performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established within *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2008, is effective.

**Table of Contents****C. Attestation Report of Independent Registered Public Accounting Firm**

Ernst & Young (Hellas) Certified Auditors Accountants S.A., or Ernst & Young (Hellas), which has audited the consolidated financial statements of the Company for the year ended December 31, 2008, has also audited the effectiveness of the Company's internal control over financial reporting as stated in their audit report which is incorporated into Item 18 of this Form 20-F from page F-2 hereof.

**D. Change in Internal Control over Financial Reporting**

No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

The Board of Directors of the Company has determined that Francis T. Nusspickel and D. John Stavropoulos, whose biographical details are included in Item 6, each qualifies as an audit committee financial expert as defined under current SEC regulations and each is independent in accordance with the rules of the SEC and the listing standards of the New York Stock Exchange.

**Item 16B. Code of Ethics**

The Company has adopted a code of ethics that applies to its directors, officers and employees. A copy of our code of ethics is posted in the Investor Relations section of the Tsakos Energy Navigation Limited website, and may be viewed at <http://www.tenn.gr>. We will also provide a hard copy of our code of ethics free of charge upon written request of a shareholder. Shareholders may direct their requests to the attention of Investor Relations, c/o George Saroglou or Paul Durham, Tsakos Energy Navigation Limited, 367 Syngrou Avenue, 175 64 P. Faliro, Athens, Greece.

**Item 16C. Principal Accountant Fees and Services**

Ernst & Young (Hellas) has audited our annual financial statements acting as our independent auditor for the fiscal years ended December 31, 2008 and 2007.

The chart below sets forth the total amount billed for the Ernst & Young services performed in 2008 and 2007 and breaks down these amounts by the category of service (in Euros).

	2007	2008
Audit fees	525,510	797,540
Audit-Related fees		
Tax fees	17,588	17,084
All other fees		
<b>Total fees</b>	<b>543,098</b>	<b>814,624</b>

**Audit Fees**

The audit fees include the aggregate fees billed for professional services rendered for the audit of our 2007 and 2008 annual financial statements and for related services that are reasonably related to the performance of the audit or services that are normally provided by the auditor in connection with regulatory filings or engagements for those financial years (including comfort letters, review of the 20-F, consents and other services related to SEC matters and including the review of work performed by other parties relating to the implementation of Sarbanes-Oxley requirements).

**Audit-Related Fees**

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The audit-related fees include the aggregate fees billed for certain accounting consultations and other work which are not reported under audit services.

**Table of Contents****Tax Fees**

The Ernst & Young office in Columbus, Ohio, United States provided tax services for 2006, 2007 and 2008 by assisting the Company in submitting tax declarations for those subsidiaries whose vessels performed voyages to the United States within 2006, 2007 and 2008 respectively. None of the declarations indicated a tax liability.

**All Other Fees**

Ernst & Young did not provide any other services that would be classified in this category during 2006, 2007 and 2008.

**Pre-approval Policies and Procedures**

The Audit Committee Charter sets forth the Company's policy regarding retention of the independent auditors, requiring the Audit Committee to review and approve in advance the retention of the independent auditors for the performance of all audit and lawfully permitted non-audit services and the fees related thereto. The Chairman of the Audit Committee or in the absence of the Chairman, any member of the Audit Committee designated by the Chairman, has authority to approve in advance any lawfully permitted non-audit services and fees. The Audit Committee is authorized to establish other policies and procedures for the pre-approval of such services and fees. Where non-audit services and fees are approved under delegated authority, the action must be reported to the full Audit Committee at its next regularly scheduled meeting.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not Applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

In September 2005, we announced that our board of directors had authorized a common share repurchase program to repurchase up to \$40.0 million of our common shares. Between January and September 2008, we repurchased 745,300 of our common shares pursuant to this share repurchase program. On September 30, 2008, we announced that our board of directors had authorized a new common share repurchase program to repurchase up to an additional \$40 million of our common shares. The current repurchase program supplemented our prior share repurchase program which was completed on October 1, 2008. The new share repurchase program took effect immediately and will continue until either the amount is fully utilized or our board of directors elects to terminate the program. As set forth below, in 2008 we repurchased an aggregate of 1,205,100 common shares in the open market pursuant to the share repurchase programs described above at a cost of approximately \$34.2 million. The purchases were made in open-market transactions through the New York Stock Exchange with a maximum price set by our board of directors. The repurchased shares were immediately deemed cancelled upon repurchase in accordance with our Bye-laws and Bermuda law, apart from those acquired as treasury stock.

The shares listed below represent the only shares repurchased by the Company in 2008.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c)	(d)
			Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Approximate Amount in U.S.\$ millions that May Yet Be Purchased Under Programs
January	136,200	\$ 31.29	136,200	\$ 19.64
March	129,400	\$ 30.90	129,400	\$ 15.65
April	126,800	\$ 32.52	126,800	\$ 11.67
August	22,400	\$ 33.64	22,400	\$ 10.92
September	330,500	\$ 31.35	330,500	\$ 40.56
October	329,700	\$ 25.37	329,700	\$ 32.19
November	38,300	\$ 18.35	38,300	\$ 31.49

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December	91,800	\$	19.10	91,800	\$	<b>29.74</b>
<b>Total</b>	<b>1,205,100</b>	<b>\$</b>	<b>28.36</b>	<b>1,205,100</b>		



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We repurchased a total of 231,100 shares as treasury stock during the first quarter of 2009 at an average price of \$16.64 per share.

**PART III**

**Item 17. Financial Statements**

Not Applicable.

**Item 18. Financial Statements**

The following financial statements together with the report of our independent registered public accounting firm, are set forth on pages F-1 through F-23 included herein.

**Item 19. Exhibits**

<b>Number</b>	<b>Description</b>
1.1	Memorandum of Association of Tsakos Energy Navigation Limited*
1.2	Bye-laws of Tsakos Energy Navigation Limited (filed as an exhibit to the Company's Form 6-K filed with the SEC on June 12, 2008, and hereby incorporated by reference)
4.1	Rights Agreement, dated as of September 29, 2005, between Tsakos Energy Navigation Limited and The Bank of New York, as Rights Agent (filed as an exhibit to the Company's Form 6-K filed with the SEC on September 30, 2005, and hereby incorporated by reference)
4.2	1998 Stock Option Plan of Tsakos Energy Navigation Limited*
4.3	Tsakos Energy Navigation Limited 2004 Incentive Plan
4.4	Amended and Restated Management Agreement between Tsakos Energy Navigation Limited and Tsakos Energy Management Limited effective January 1, 2007**
8	List of subsidiaries of Tsakos Energy Navigation Limited (filed herewith)
11	Code of Ethics
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith)
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith)
13.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
13.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
15.1	Consent of Independent Registered Public Accounting Firm (filed herewith)

\* Previously filed as an exhibit to the Company's Registration Statement on Form F-1 (File No. 333-82326) filed with the SEC and hereby incorporated by reference to such Registration Statement.

\*\* Previously filed as an exhibit to the Company's 20-F filed with the SEC on May 15, 2007, hereby incorporated by reference to such Annual Report.

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Previously filed as an exhibit to the Company's Annual Report on Form 20-F filed with the SEC on June 29, 2004 and hereby incorporated by reference to such Annual Report.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

TSAKOS ENERGY NAVIGATION LIMITED

/s/ Nikolas P. Tsakos

Name: Nikolas P. Tsakos

Title: President and Chief Executive Officer

Date: April 30, 2009

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**TSAKOS ENERGY NAVIGATION LIMITED AND SUBSIDIARIES**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

TSAKOS ENERGY NAVIGATION LIMITED

We have audited the accompanying consolidated balance sheets of TSAKOS ENERGY NAVIGATION LIMITED and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TSAKOS ENERGY NAVIGATION LIMITED and subsidiaries at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), TSAKOS ENERGY NAVIGATION LIMITED and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2009 expressed an unqualified opinion thereon.

**ERNST & YOUNG (HELLAS) CERTIFIED AUDITORS – ACCOUNTANTS S.A.**

Athens, Greece

March 31, 2009

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

TSAKOS ENERGY NAVIGATION LIMITED

We have audited TSAKOS ENERGY NAVIGATION LIMITED and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). TSAKOS ENERGY NAVIGATION LIMITED and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, TSAKOS ENERGY NAVIGATION LIMITED and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TSAKOS ENERGY NAVIGATION LIMITED and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated March 31, 2009 expressed an unqualified opinion thereon.

**ERNST & YOUNG (HELLAS) CERTIFIED AUDITORS - ACCOUNTANTS S.A.**

Athens, Greece

March 31, 2009

**Table of Contents****TSAKOS ENERGY NAVIGATION LIMITED AND SUBSIDIARIES**

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008 and DECEMBER 31, 2007

(Expressed in thousands of U.S. Dollars - except share data)

	2008	2007
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 312,169	\$ 181,447
Restricted cash	7,581	6,889
Accounts receivable, net	16,596	23,411
Insurance claims	7,286	13,120
Due from related companies (Note 2)	4,923	972
Advances and other	8,329	5,359
Vessel held for sale (Note 4)		27,535
Inventories	10,919	12,099
Prepaid insurance and other	2,978	4,030
Financial instruments-Fair value (Note 8)		1,191
<b>Total current assets</b>	<b>370,781</b>	<b>276,053</b>
<b>INVESTMENTS (Note 3)</b>	<b>1,000</b>	<b>1,000</b>
<b>FIXED ASSETS (Note 2a, 4 and 7)</b>		
Advances for vessels under construction	53,715	169,739
Vessels	2,468,472	2,127,704
Accumulated depreciation	(312,983)	(227,521)
<b>Vessels Net Book Value</b>	<b>2,155,489</b>	<b>1,900,183</b>
<b>Total fixed assets</b>	<b>2,209,204</b>	<b>2,069,922</b>
<b>DEFERRED CHARGES, net (Note 5)</b>	<b>21,332</b>	<b>15,801</b>
<b>Total assets</b>	<b>\$ 2,602,317</b>	<b>\$ 2,362,776</b>
<b><u>LIABILITIES AND STOCKHOLDERS EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt (Note 6)	\$ 91,805	\$ 44,363
Payables	27,960	34,871
Due to related companies (Note 2)	197	2,428
Accrued liabilities	24,497	17,275
Accrued bank interest	14,656	16,952
Unearned revenue	14,709	11,939
Deferred income (Note 7)		2,626
Current portion of financial instruments - Fair value (Note 8)	15,664	1,770
<b>Total current liabilities</b>	<b>189,488</b>	<b>132,224</b>

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<b>LONG-TERM DEBT, net of current portion (Note 6)</b>	1,421,824	1,345,580
<b>FINANCIAL INSTRUMENTS - FAIR VALUE, net of current portion (Note 8)</b>	75,890	27,041
<b>MINORITY INTEREST (Note 11)</b>	4,457	3,391
<b>STOCKHOLDERS EQUITY:</b>		
Common stock, \$ 1.00 par value; 100,000,000 shares authorized; 37,671,392 issued at December 31, 2008 and 38,059,142 issued and outstanding at December 31, 2007	37,671	38,059
Additional paid-in capital	265,932	273,036
Retained earnings	693,511	567,220
	997,114	878,315
Cost of treasury stock (526,700 shares)	14,217	
	982,897	878,315
Accumulated other comprehensive loss	(72,239)	(23,775)
<b>Total stockholders equity</b>	<b>910,658</b>	<b>854,540</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 2,602,317</b>	<b>\$ 2,362,776</b>

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



**Table of Contents****TSAKOS ENERGY NAVIGATION LIMITED AND SUBSIDIARIES**

## CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Expressed in thousands of U.S. Dollars - except share and per share data)

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>VOYAGE REVENUES:</b>	\$ 623,040	\$ 500,617	\$ 427,654
<b>EXPENSES:</b>			
Commissions	22,997	17,976	15,441
Voyage expenses	83,065	72,075	69,065
Charter hire expense	13,487	15,330	24,461
Vessel operating expenses	143,757	108,356	76,095
Depreciation	85,462	81,567	59,058
Amortization of deferred dry-docking costs	5,281	3,217	4,857
Management fees (Note 2)	12,015	9,763	7,103
General and administrative expenses	4,626	4,382	3,510
Management incentive award (Note 2)	4,750	4,000	3,500
Stock compensation expense (Note 9)	3,046	5,670	216
Foreign currency losses	915	691	279
Amortization of deferred gain on sale of vessels (Note 7)	(634)	(3,168)	(3,168)
Gain on sale of vessels (Note 4)	(34,565)	(68,944)	(38,009)
<b>Total expenses</b>	<b>344,202</b>	<b>250,915</b>	<b>222,408</b>
<b>Operating income</b>	<b>278,838</b>	<b>249,702</b>	<b>205,246</b>
<b>OTHER INCOME (EXPENSES):</b>			
Gain on sale of shares in subsidiary (Note 11)			25,323
Interest and finance costs, net (Note 8)	(82,897)	(77,382)	(42,486)
Interest and investment income	8,406	13,316	7,164
Other, net	(350)	924	1,159
<b>Total other expenses, net</b>	<b>(74,841)</b>	<b>(63,142)</b>	<b>(8,840)</b>
<b>MINORITY INTEREST</b>	<b>(1,066)</b>	<b>(3,389)</b>	<b>(2)</b>
<b>Net Income</b>	<b>\$ 202,931</b>	<b>\$ 183,171</b>	<b>\$ 196,404</b>
<b>Earnings per share, basic (Note 10)</b>	<b>\$ 5.40</b>	<b>\$ 4.81</b>	<b>\$ 5.15</b>
<b>Earnings per share, diluted (Note 10)</b>	<b>\$ 5.33</b>	<b>\$ 4.79</b>	<b>\$ 5.15</b>
<b>Weighted average number of shares, basic</b>	<b>37,552,848</b>	<b>38,075,859</b>	<b>38,127,692</b>

<b>Weighted average number of shares, diluted</b>	38,047,134	38,234,079	38,141,052
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The accompanying notes are an integral part of these consolidated financial statements.

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**Table of Contents****TSAKOS ENERGY NAVIGATION LIMITED AND SUBSIDIARIES**

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Expressed in thousands of U.S. Dollars - except share and per share data)

	Comprehensive Income (Loss)	Common Stock	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders Equity
<b>BALANCE, December 31, 2005</b>		\$ 19,177	\$ 269,237			\$ 3,067	\$ 315,705	\$ 607,186
Net income	196,404						196,404	196,404
- Exercise of stock options (Note 9)		6	65					71
- Repurchase and cancellation of common stock (286,400 shares)		(143)	(1,872)				(3,246)	(5,261)
- Cash dividends declared and paid (\$1.175 per share)							(44,778)	(44,778)
- Fair value of financial instruments	3,666					3,666		3,666
- Fair value of investments	3,072					3,072		3,072
- Reclassification of gains on undesignated cash flow hedges	(5,087)					(5,087)		(5,087)
Comprehensive income	\$ 198,055							
<b>BALANCE, December 31, 2006</b>		\$ 19,040	\$ 267,430			\$ 4,718	\$ 464,085	\$ 755,273
Net income	183,171						183,171	183,171
- Repurchase and cancellation of common stock (41,600 shares)		(21)	(270)				(1,047)	(1,338)
- Issuance of 21,000 shares of restricted share units (Note 9)		10	(10)					
- Cash dividends declared and paid (\$1.575 per share)							(59,959)	(59,959)
- Two-for-one stock split (Note 9)		19,030					(19,030)	
- Fair value of financial instruments	(25,421)					(25,421)		(25,421)
- Fair value of investments	953					953		953
- Reclassification upon sale of investments	(4,025)					(4,025)		(4,025)
- Amortization of restricted share units (Note 9)			5,886					5,886
Comprehensive income	\$ 154,678							
<b>BALANCE, December 31, 2007</b>		\$ 38,059	\$ 273,036			\$ (23,775)	\$ 567,220	\$ 854,540
Net income	202,931						202,931	202,931
- Repurchase and cancellation of common stock (392,400 shares)		(393)	(2,425)				(9,414)	(12,232)
- Purchases of Treasury stock				812,700	(21,937)			(21,937)
- Issuance of 4,650 shares of restricted share units (Note 9)		5	(5)					
- Treasury stock granted to employees as part of stock compensation plan			(7,720)	(286,000)	7,720			
- Cash dividends declared and paid (\$1.80 per share)							(67,226)	(67,226)

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- Fair value of financial instruments	(48,464)				(48,464)			(48,464)
- Amortization of restricted share units (Note 9)		3,046						3,046
Comprehensive income	\$	154,467						
<b>BALANCE, December 31, 2008</b>		\$ 37,671	\$ 265,932	526,700	\$ (14,217)	\$ (72,239)	\$ 693,511	\$ 910,658

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

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**Table of Contents****TSAKOS ENERGY NAVIGATION LIMITED AND SUBSIDIARIES**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Expressed in thousands of U.S. Dollars)

	2008	2007	2006
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 202,931	\$ 183,171	\$ 196,404
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	85,462	81,567	59,058
Amortization of deferred dry-docking costs	5,281	3,217	4,857
Amortization of loan fees	944	921	1,495
Amortization of deferred income	(634)	(3,168)	(3,168)
Amortization of restricted share units	3,046	5,670	216
Change in fair value of derivative instruments	15,470	7,733	556
Change in fair value of investments			(4,018)
Gain on sale of vessels	(34,565)	(68,944)	(38,009)
Gain on sale of shares in subsidiary			(25,323)
Minority interest	1,066	3,389	2
Gain on sale of investments		(4,230)	(561)
Payments for dry-docking	(11,374)	(9,691)	(4,903)
(Increase) Decrease in:			
Receivables	5,728	(20,092)	(12)
Inventories	1,180	(3,668)	(3,025)
Prepaid insurance and other	1,052	(1,010)	(657)
Increase (Decrease) in:			
Accounts payable	(9,142)	12,630	9,253
Accrued liabilities	4,926	3,252	16,090
Unearned revenue	2,770	(136)	6,743
<b>Net Cash provided by Operating Activities</b>	<b>274,141</b>	<b>190,611</b>	<b>214,998</b>
<b>Cash Flows from Investing Activities:</b>			
Advances for vessels under construction and acquisitions	(3,471)	(111,090)	(152,767)
Vessel acquisitions and/or improvements	(223,266)	(421,187)	(813,243)
Investments		(1,000)	(4,992)
Proceeds from sale of investments		15,203	27,647
Proceeds from sale of shares in subsidiary			25,323
Proceeds from sale of vessels	62,100	142,433	88,706
<b>Net Cash used in Investing Activities</b>	<b>(164,637)</b>	<b>(375,641)</b>	<b>(829,326)</b>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from long-term debt	168,050	342,345	992,282
Financing costs	(382)	(533)	(2,972)
Payments of long-term debt	(44,363)	(86,063)	(292,140)
Proceeds from exercise of stock options			71
Increase in restricted cash	(692)	(2,542)	(4,076)
Repurchase and cancellation of common stock	(12,232)	(1,338)	(5,261)
Purchase of treasury stock	(21,937)		

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Cash dividend	(67,226)	(59,959)	(44,778)
<b>Net Cash provided by Financing Activities</b>	21,218	191,910	643,126
<b>Net increase in cash and cash equivalents</b>	130,722	6,880	28,798
<b>Cash and cash equivalents at beginning of year</b>	181,447	174,567	145,769
<b>Cash and cash equivalents at end of year</b>	\$ 312,169	\$ 181,447	\$ 174,567
<i>Interest paid</i>			
Cash paid for interest, net of amounts capitalized	68,213	64,834	33,964

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

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**TSAKOS ENERGY NAVIGATION LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008, 2007 AND 2006**

**(Expressed in thousands of U.S. Dollars, except for share and per share data, unless otherwise stated)**

**1. Significant Accounting Policies**

- (a) **Basis of presentation and description of business:** The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) and include the accounts of Tsakos Energy Navigation Limited (the Holding Company ), and its wholly-owned and majority-owned subsidiaries (collectively, the Company ). All intercompany balances and transactions have been eliminated upon consolidation.

The Holding Company consolidates voting interest entities in which it owns all, or at least a majority of the voting interest. A voting interest entity is an entity in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make financial and operating decisions.

As at December 31, 2008 and 2007, the Holding Company consolidated two variable interest entities ( VIE ) for which it is deemed to be the primary beneficiary, i.e. it has a controlling financial interest in those entities. A VIE is an entity that in general does not have equity investors with voting rights or that has equity investors that do not provide sufficient financial resources for the entity to support its activities. A controlling financial interest in a VIE is present when a company absorbs a majority of an entity's expected losses, receives a majority of an entity's expected residual returns, or both.

The Company owns and operates a fleet of crude and product oil carriers and one LNG carrier providing worldwide marine transportation services under long, medium or short-term charters.

- (b) **Use of Estimates:** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.
- (c) **Foreign Currency Translation:** The functional currency of the Company is the U.S. Dollar because the Company's vessels operate in international shipping markets in which the U.S. Dollar is utilized to transact most business. The accounting books of the Company are also maintained in U.S. Dollars. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities, which are denominated in other currencies, are translated into U.S. Dollars at the year-end exchange rates. Resulting gains or losses are separately reflected in the accompanying Consolidated Statements of Income.
- (d) **Cash and Cash Equivalents:** The Company classifies highly liquid investments such as time deposits and certificates of deposit with original maturities of three months or less as cash and cash equivalents. Minimum cash deposits required to be maintained with banks for loan and interest rate swap compliance purposes and deposits with certain banks that may only be used for the purpose of loan repayments are classified as Restricted cash.

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**TSAKOS ENERGY NAVIGATION LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008, 2007 AND 2006**

**(Expressed in thousands of U.S. Dollars, except for share and per share data, unless otherwise stated)**

**1. Significant Accounting Policies (continued)**

(e) **Trade Accounts Receivable, Net:** Trade accounts receivable, net at each balance sheet date includes estimated recoveries from charterers for hire, freight and demurrage billings and revenue earned but not yet billed, net of an allowance for doubtful accounts (nil as of December 31, 2008 and \$270 as of December 31, 2007). Revenue earned but not yet billed amounted to \$13,063 and \$9,775 as of December 31, 2008 and 2007, respectively. The Company's management regularly reviews all outstanding invoices and provides allowances for receivables deemed uncollectible.

(f) **Inventories:** Inventories consist of bunkers, lubricants, victualling and stores and are stated at the lower of cost or market value. The cost is determined primarily by the first-in, first-out method.

(g) **Fixed Assets:** Fixed assets consist primarily of vessels. Vessels are stated at cost, less accumulated depreciation. The cost of vessels includes the contract price and pre-delivery costs incurred during the construction of new buildings, including capitalized interest, and expenses incurred upon acquisition of second-hand vessels. Subsequent expenditures for conversions and major improvements are capitalized when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels; otherwise they are charged to expense as incurred. Expenditures for routine maintenance and repairs are expensed as incurred.

Depreciation is provided on the straight-line method based on the estimated remaining economic useful lives of the vessels, less an estimated residual value based on a scrap price. Economic useful lives are estimated at 25 years for crude and product oil carriers and 40 years for the LNG carrier from the date of original delivery from the shipyard. Scrap prices have increased over the past five years. Accordingly, effective January 1, 2008, the Company made a change in estimate related to the scrap price for all of its vessels from \$180 per lightweight ton to \$300 per lightweight ton. The resulting increase in residual value has been applied prospectively, and has reduced depreciation by approximately \$5.3 million for the year ended December 31, 2008.

(h) **Impairment of Vessels:** The Company reviews vessels for impairment whenever events or changes in circumstances indicate that the carrying amount of a vessel may not be recoverable, such as during severe disruptions in global economic and market conditions. Impairment for a vessel is recognized when the estimate of future undiscounted net operating cash flows expected to be generated by the use of the vessel over its remaining useful life and its eventual disposition is less than its carrying amount. Net operating cash flows are determined by applying various assumptions regarding future revenues net of commissions, operating expenses, scheduled dry-dockings, expected off-hire and scrap values, and taking into account historical revenue data and published forecasts on future world economic growth and inflation. Measurement of the impairment is based on the excess of the carrying amount over the fair market value of the asset. No impairment loss was recorded in 2008, 2007 and 2006.



**Table of Contents****TSAKOS ENERGY NAVIGATION LIMITED AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2008, 2007 AND 2006****(Expressed in thousands of U.S. Dollars, except for share and per share data, unless otherwise stated)****1. Significant Accounting Policies (continued)**

- (i) **Accounting for Special Survey and Dry-docking Costs:** The Company follows the deferral method of accounting for dry-docking and special survey costs whereby actual costs incurred are reported in Deferred Charges and are amortized on a straight-line basis over the period through the date the next dry-docking is scheduled to become due. Costs relating to routine repairs and maintenance are expensed as incurred. The unamortized portion of special survey and dry-docking costs for a vessel that is sold is included as part of the carrying amount of the vessel in determining the gain on sale of the vessel.
- (j) **Loan Costs:** Costs incurred for obtaining new loans or refinancing existing loans are capitalized and included in deferred charges and amortized over the term of the respective loan, using the effective interest rate method. Any unamortized balance of costs relating to loans repaid or refinanced as debt extinguishments is expensed in the period the repayment or extinguishment is made.
- (k) **Accounting for Revenue and Expenses:** Voyage revenues are generated from freight billings and time charter hire. Time charter revenue, including bareboat hire, is recorded over the term of the charter as the service is provided. Revenues from voyage charters on the spot market or under contract of affreightment are recognized on a percentage of completion method using the discharge to discharge basis. Vessel voyage and operating expenses and charter hire expense are expensed when incurred. Unearned revenue represents cash received prior to the year end for which related service has not been provided, primarily relating to charter hire paid in advance to be earned over the applicable charter period. The operating revenues and voyage expenses of vessels operating under a tanker pool are pooled and are allocated to the pool participants on a time charter equivalent basis, according to an agreed formula. Revenues from variable hire arrangements are recognized to the extent the amounts are fixed or determinable at the reporting date.

Voyage revenues for 2008, 2007 and 2006, included revenues derived from significant charterers as follows (in percentages of total voyage revenues):

Charterer	2008	2007	2006
A	15%	16%	13%
B	11%	12%	Under 10%
C	10%	11%	Under 10%

- (l) **Segment Reporting:** The Company does not evaluate the operating results by type of vessel or by type of charter or by type of cargo. Although operating results may be identified by type of vessel, management, including the chief operating decision maker, reviews operating results primarily by revenue per day and operating results of the fleet. Thus the Company has determined that it operates in one reportable segment, the worldwide maritime transportation of crude and refined oil. In 2007, the Company acquired a liquefied natural gas (LNG) carrier. This is the only vessel of its kind that the Company currently operates and, as it does not meet the quantitative thresholds used to determine reportable segments, the LNG carrier segment is not a reportable segment. The Company's vessels operate on many trade routes throughout the world and, therefore, the provision of geographic information is considered impracticable by management.

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**TSAKOS ENERGY NAVIGATION LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008, 2007 AND 2006**

**(Expressed in thousands of U.S. Dollars, except for share and per share data, unless otherwise stated)**

**1. Significant Accounting Policies (continued)**

- (m) **Derivative Financial Instruments:** The Company regularly enters into interest rate swap contracts to manage its exposure to fluctuations of interest rates associated with its specific borrowings. Interest rate differentials paid or received under these swap agreements are recognized as part of interest expense related to the hedged debt. All derivatives are recognized in the consolidated financial statements at their fair value. On the inception date of the derivative contract, the Company designates the derivative as a hedge of a forecasted transaction or the variability of cash flow to be paid ( cash flow hedge). Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in other comprehensive income until earnings are affected by the forecasted transaction or the variability of cash flow and are then reported in earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in earnings in the period in which those fair value changes have occurred. Realized gains or losses on early termination of the derivative instruments are also classified in earnings in the period of termination of the respective derivative instrument.

The Company formally documents all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific forecasted transactions or variability of cash flow.

The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, in accordance with FASB Statement 133.

- (n) **Fair Value Measurements:** The Company adopted as of January 1, 2008 Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which defines, and provides guidance as to the measurement of, fair value. This statement creates a hierarchy of measurement and indicates that, when possible, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS No. 157 applies when assets or liabilities in the financial statements are to be measured at fair value, but does not require additional use of fair value beyond the requirements in other accounting principles. The statement was effective for the Company as of January 1, 2008, excluding certain non-financial assets and non-financial liabilities, for which the statement is effective for fiscal years beginning after November 15, 2008 and its adoption did not have a significant impact on the Company's financial position or results of operations (See Note 14).

Statement of Financial Accounting Standards No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities, permits companies to report certain financial assets and financial liabilities at fair value. SFAS 159 was effective for the Company as of January 1, 2008 at which time the Company could elect to apply the standard prospectively and measure certain financial instruments at fair value.

The Company has evaluated the guidance contained in SFAS 159, and has elected not to report any existing financial assets or liabilities at fair value that are not already reported; therefore, the adoption of the statement had no impact on its financial position and results of operations. The Company retains the ability to elect the fair value option for certain future assets and liabilities acquired under this new pronouncement.

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**1. Significant Accounting Policies (continued)**

- (o) **Accounting for Leases:** Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line method over the lease term. The Company held no operating leases at December 31, 2008.
- (p) **Stock Based Compensation:** The Company has a share based incentive plan and, until July 2006, a stock option plan that covers directors and officers of the Company and employees of the related companies discussed in Note 2. The Company applies the fair-value-based method of accounting for share-based payments in accordance with FASB Statement 123(R). Awards granted are valued at fair value and compensation cost is recognized on a straight line basis, net of estimated forfeitures, over the requisite service period of each award. The fair value of restricted stock issued to crew members, directors and officers of the Company at the grant date is equal to the closing stock price on that date and is amortized over the applicable vesting period using the straight-line method. The fair value of restricted stock issued to non-employees is equal to the closing stock price at the grant date adjusted by the closing stock price at each reporting date and is amortized over the applicable performance period in accordance with EITF 96-18 (See Note 9).
- (q) **Reporting Assets held for sale:** It is the Company's policy to dispose of vessels and other fixed assets when suitable opportunities occur and not necessarily to keep them until the end of their useful life. The Company classifies assets as being held for sale in accordance with FASB Statement No. 144 Accounting for the Impairment or the Disposal of Long-Lived Assets. Long-lived assets classified as held for sale are measured at the lower of their carrying amount or fair value less cost to sell. These assets are not depreciated once they meet the criteria to be held for sale. No assets were held for sale at December 31, 2008.

(r) **Recent Accounting Pronouncements:**

On December 4, 2007, the FASB issued Statement 141(R), Business Combinations and Statement 160, Non-controlling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51. These new standards will significantly change the accounting for and reporting of business combination transactions and non-controlling (minority) interests in consolidated financial statements. Statement 141(R) and Statement 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008.

Early adoption is prohibited. Statement 141(R) replaces Statement 141 Business Combinations, and establishes several new principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed any non-controlling interest in the acquiree and the goodwill acquired. Due to the prospective application requirement, SFAS 141R did not impact our consolidated statement of financial position, results of operations or cash flows.

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**1. Significant Accounting Policies (continued)**

*(r) Recent Accounting Pronouncements (continued):*

Statement 160 establishes new accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. It is effective for the Company beginning January 1, 2009, and is required to be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements, which must be applied retrospectively for all periods presented. The Company does not believe that the adoption of Statement 160 will have a material impact on its earnings and financial position.

In March 2008, the FASB issued Statement 161, *Disclosures about Derivative Instruments and Hedging Activities*—an amendment of FASB Statement No. 133. Statement 161 amends and expands the disclosure requirements of FASB Statement 133 with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial performance and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the impact of the adoption of Statement 161 on its consolidated financial statements and footnote disclosures.

In May 2008, the FASB issued FAS 162, *The Hierarchy of Generally Accepted Accounting Principles*. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This statement is effective 60 days following the SEC's approval of the PCAOB amendment to AU Section 411. The Company does not expect that the adoption of FAS 162 will have a significant impact.

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**2. Transactions with Related Parties**

The following amounts were charged by related parties for services rendered:

	2008	2007	2006
Tsakos Shipping and Trading S.A. (commissions)	7,707	6,132	5,399
Tsakos Energy Management Limited (management fees)	11,715	9,496	7,103
Argosy Insurance Company Limited	8,277	7,246	5,988
AirMania Travel S.A.	1,309	1,630	1,333
<b>Total expenses with related parties</b>	<b>29,008</b>	<b>24,504</b>	<b>19,823</b>

Balances due from and to related parties are as follows:

	December 31,	
	2008	2007
<b>Due from related parties</b>		
Tsakos Shipping and Trading S.A.	2,670	972
Argosy Insurance Company Limited	2,253	
<b>Total due from related parties</b>	<b>4,923</b>	<b>972</b>
<b>Due to related parties</b>		
Tsakos Energy Management Limited	162	44
Argosy Insurance Company Limited		2,209
AirMania Travel S.A.	35	175
<b>Total due to related parties</b>	<b>197</b>	<b>2,428</b>

- (a) **Tsakos Energy Management Limited:** The Holding Company has a Management Agreement ( Management Agreement ) with Tsakos Energy Management Limited (the Management Company ), a Liberian corporation, to provide overall executive and commercial management of its affairs for a monthly fee. Per the Management Agreement of March 8, 2007, effective from January 1, 2008, there is a prorated adjustment if at beginning of each year the Euro has appreciated by 10% or more against the U.S. Dollar since January 1, 2007. In addition, there is an increase each year by a percentage figure reflecting 12 month Euribor, if both parties agree. As a consequence, from January 1, 2008, monthly management fees for operating vessels were \$23 per owned vessel and \$17 for chartered-in vessels or for owned vessels chartered out on a bareboat basis (\$20 and \$15, respectively, in 2007, and \$18 and \$12.5, respectively, in 2006). From January 1, 2009, monthly fees for operating vessels are \$23.7 and \$17.5, respectively.

In addition to the management fee, the Management Agreement provides for an incentive award to the Management Company, which is at the absolute discretion of the Holding Company's Board of Directors. The incentive award program is based on the Company's annual return on

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equity ( ROE ), and an award scale for 2008, ranging from ROE greater than 15% corresponding to an award amount of \$2,500 (\$1,500 and \$1,250 in 2007 and 2006 respectively) up to ROE greater than 25% with an award amount of \$5,500 (\$4,500 in 2007 and \$3,500 in 2006). For 2008, the ROE was 23.7% and the Board of Directors approved an award of \$4,750. For 2007 the ROE was 24.2% and the Board of Directors approved an award of \$4,000 whereas for 2006 the ROE was in excess of 25% and an award of \$3,500 was approved. The awards are expensed and recognized in accrued liabilities in the accompanying December 31, 2008, 2007 and 2006 Consolidated Financial Statements.

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**2. Transactions with Related Parties (continued)****(a) Tsakos Energy Management Limited (continued):**

The Holding Company and Tsakos Energy Management Limited have certain officers and directors in common. The President, who is also the Chief Executive Officer and a Director of the Holding Company, is also the sole stockholder of Tsakos Energy Management Limited. Tsakos Energy Management Limited may unilaterally terminate its Management Agreement with the Holding Company at any time upon one year's notice. In addition, if even one director was elected to the Holding Company's Board of Directors without having been recommended by the existing board, Tsakos Energy Management Limited would have the right to terminate the Management Agreement on ten days notice. If Tsakos Energy Management Limited terminates the agreement for this reason, the Holding Company would be obligated to pay Tsakos Energy Management Limited the present value of all payments that would have otherwise become due under the Management Agreement until June 30 in the tenth year following the date of the termination plus the average of the incentive awards previously paid to Tsakos Energy Management Limited multiplied by ten. This would result in a total payment of approximately \$126,000 as of December 31, 2008. Under the terms of the Management Agreement between the Holding Company and Tsakos Energy Management Limited, the Holding Company may terminate the agreement only under specific circumstances, such as breach of contract by the manager and change of control in the shareholding of the manager without the prior approval of the Holding Company's Board of Directors.

Estimated future management fees payable over the next ten years under the management agreement, exclusive of any incentive awards and based on existing vessels and known vessels scheduled for future delivery as at December 31, 2008, are:

<b>Year</b>	<b>Amount</b>
2009	13,922
2010	14,114
2011	14,146
2012	14,146
2013 to 2018	75,879
	132,207

Management fees for vessels are included in the accompanying Consolidated Statements of Income. Also, under the terms of the Management Agreement, Tsakos Energy Management Limited provides supervisory services for the construction of new vessels for a monthly fee of \$17 per vessel in 2008, \$15 in 2007 and \$12.5 in 2006 (\$20 relating to the construction of an LNG carrier in 2007 and \$18 in 2006). These fees in total amounted to \$1,222, \$1,832, and \$2,033 during the years ended December 31, 2008, 2007 and 2006, respectively, and are either accounted for as part of construction costs for delivered vessels or are included in Advances for vessels under construction.

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**2. Transactions with Related Parties (continued)**

- (b) *Tsakos Shipping and Trading S.A. ( Tsakos )*: Tsakos Energy Management Limited has appointed Tsakos to provide technical management to the Company's vessels. Tsakos, at the consent of the Holding Company, may subcontract all or part of the technical management of any vessel to an alternative unrelated technical manager. Certain members of the Tsakos family are involved in the decision-making processes of Tsakos and of Tsakos Energy Management Limited and are also shareholders of the Holding Company.

Tsakos Energy Management Limited, at its own expense, pays technical management fees to Tsakos, and the Company bears and pays directly to Tsakos most of its operating expenses, including repairs and maintenance, provisioning and crewing of the Company's vessels, as well as certain charges which are capitalized or deferred, including reimbursement of the costs of Tsakos personnel sent overseas to supervise repairs and perform inspections on Company vessels.

Tsakos also provides chartering services for the Company's vessels by communicating with third party brokers to solicit research and propose charters. For this service, the Company pays to Tsakos a chartering commission of approximately 1.25% on all freights, hires and demurrages. Such commissions are included in Commissions. Commissions due to Tsakos by the Company have been netted-off against amounts due from Tsakos for advances made, and the net amount is included in Due from related Companies.

- (c) *Argosy Insurance Company Limited ( Argosy )*: The Company places its hull and machinery insurance, increased value insurance and war risk and certain other insurance through Argosy, a captive insurance company affiliated with Tsakos.
- (d) *AirMania Travel S.A. ( AirMania )*: Apart from third-party agents, the Company also uses an affiliated company, AirMania, for travel services.

**3. Long-term Investments**

At December 31, 2008 and 2007, the Company held 125,000 common shares at a total cost of \$1,000 in a private U.S. company which undertakes research into synthetic genomic processes which may have a beneficial environmental impact within the energy and maritime industries. The research company is in its development stage and management has determined that there has been no impairment to the cost of this investment since its acquisition in 2007. A Director of the Company is an officer and shareholder of this company. No income was received from this investment during 2008 and there was no other investment during 2008.

During 2007, a structured note held by the Company was redeemed with a gain of \$205 and the Company converted a convertible bond into common shares, and later sold the shares for proceeds of \$10,202 resulting in a gain of \$4,025 reclassified to Interest and investment income from Accumulated Other Comprehensive Income. In aggregate, in 2007 and 2006, the Company recorded gains from investments and changes in fair value of investments amounting to \$4,230 and \$4,579 respectively, reported within Interest and investment income.



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There were four scheduled deliveries of newly constructed vessels within 2008 at a total cost of \$245,129 of which \$126,943 was paid in 2008. Also in October 2008, the Company repurchased the suezmax tankers *Cape Baker* and *Cape Balboa* (renamed *Decathlon* and *Pentathlon* respectively) (See Note 7).

**Sales**

In February 2008, the Company sold the aframax tanker *Olympia* which was held for sale at December 31, 2007. Net sale proceeds amounted to \$62,100 resulting in capital gains of \$34,565. During 2007, the Company sold three operating vessels for net proceeds of \$142,433. The total gain from these three sales was \$68,944, and was shown as Gain on sale of vessels. In 2006, the Company sold three operating vessels and recognized gains on sale of \$38,009.

**Charters-out**

The future minimum revenues, before reduction for brokerage commissions, expected to be recognized on non-cancelable time charters are as follows:

<b>Year</b>	<b>Amount</b>
2009	265,548
2010	152,011
2011	58,025
2012	25,440
2013 and thereafter	15,873
Net minimum charter payments	516,897

These amounts do not assume any off-hire.

**5. Deferred Charges**

Deferred charges, consisted of dry-docking and special survey costs, net of accumulated amortization, amounted to \$17,181 and \$11,088 at December 31, 2008 and 2007, respectively, and loan fees, net of accumulated amortization, amounted to \$4,151 and \$4,713 at December 31, 2008 and 2007, respectively. Amortization of deferred dry-docking costs is separately reflected in the accompanying Consolidated Statements of Income, while amortization of loan fees is included in Interest and finance costs, net.

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**6. Long-Term Debt**

Facility	2008	2007
(a) Credit Facilities	1,361,623	1,321,412
(b) Term Bank Loans	152,006	68,531
<b>Total</b>	<b>1,513,629</b>	<b>1,389,943</b>
Less current portion	(91,805)	(44,363)
<b>Long-term portion</b>	<b>1,421,824</b>	<b>1,345,580</b>

*(a) Credit facilities*

As at December 31, 2008, the Company had seven open reducing revolving credit facilities, all of which are reduced in semi-annual installments, and two open facilities which have both a reducing revolving credit component and a term bank loan component. The aggregate available unused amount under these facilities at December 31, 2008 is \$49,228. Interest is payable at a rate based on LIBOR plus a spread. At December 31, 2008, interest on these facilities ranged from 1.42% to 5.19%.

*(b) Term bank loans*

Term loan balances outstanding at December 31, 2008 amounted to \$152,006. These bank loans are payable in U.S. Dollars in semi-annual installments with balloon payments due at maturity between May 2014 and October 2018. Interest rates on the outstanding loans as at December 31, 2008, are based on LIBOR plus a spread. At December 31 2008, interest on these term bank loans ranged from 3.26% to 4.76%. One bank loan includes an option to convert the loan into Euro, Yen or Swiss Francs at the applicable spot rates of Exchange.

The weighted-average interest rates on the above executed loans for the applicable periods were:

Year ended December 31, 2008	4.38%
Year ended December 31, 2007	5.96%
Year ended December 31, 2006	5.81%

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**6. Long-Term Debt (continued)**

Loan movements for credit facilities and term loans throughout 2008:

<b>Loan</b>	<b>Origination Date</b>	<b>Original Amount</b>	<b>Balance at January 1, 2008</b>	<b>New Loans</b>	<b>Repaid</b>	<b>Balance at December 31, 2008</b>
12-year term loan	2002	30,500	20,875		1,750	19,125
Credit facility	2005	250,000	136,821		12,636	124,185
Credit facility	2005	220,000	198,688		11,923	186,765
Credit facility	2006	275,000	234,750			234,750
Credit facility *	2004	179,384	136,774		10,555	126,219
Credit facility	2005	220,000	121,500			121,500
Credit facility	2006	371,010	327,270			327,270
10-year term loan	2004	71,250	47,656		3,125	44,531
Credit facility	2006	70,000	60,625		4,375	56,250
Credit facility	2007	120,000	104,984			104,984
10-year term loan	2007	88,350		88,350		88,350
Credit facility	2007	82,000		79,700		79,700
<b>Total</b>			<b>1,389,943</b>	<b>168,050</b>	<b>44,364</b>	<b>1,513,629</b>

\* This loan includes a fixed interest rate portion amounting to \$106,019 as at December 31, 2008.

The above revolving credit facilities and term bank loans are secured by first priority mortgages on substantially all vessels, and to assignments of earnings and insurances of the respectively mortgaged vessels, and by corporate guarantees of the relevant ship-owning subsidiaries.

The loan agreements include, among other covenants, covenants requiring the Company to obtain the lenders' prior consent in order to incur or issue any financial indebtedness, additional borrowings, pay dividends in an amount more than 50% of cumulative net income (as defined in the related agreements), sell vessels and assets, and change the beneficial ownership or management of the vessels. Also, the covenants require the Company to maintain a minimum liquidity, a minimum hull value in connection with the vessels' outstanding loans, insurance coverage of the vessels against all customary risks and maintenance of operating bank accounts with minimum balances.

The annual principal payments required to be made after December 31, 2008, including balloon payments totaling \$675,879 due through August 2019, are as follows:

<b>Year</b>	<b>Amount</b>
2009	91,805
2010	102,679
2011	105,195
2012	105,195

2013 and thereafter	1,108,755
	1,513,629

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**7. Deferred Income**

In October and November 2003, respectively, the Company sold two suezmaxes and time-chartered the vessels (re-named *Cape Baker* and *Cape Balboa* respectively) back from the buyer for a minimum period of five years with an option to buy the vessels at the end of the period at specified amounts. On March 14, 2008, the Board of Directors resolved that management should exercise the options to repurchase both vessels at \$47,500 each. The options to repurchase the vessels were declared on April 7, 2008, and the vessels were redelivered in October and November 2008, respectively and reverted to their original names, *Decathlon* and *Pentathlon*.

The original charter back agreements were accounted for as operating leases and the gains on the sale of \$8,340 and \$7,497 respectively were deferred and amortized in proportion to the gross rental charge to expense over the five year lease period. The unamortized balance resulting from the original sale of the vessels *Decathlon* and *Pentathlon* amounted to \$2,626 at December 31, 2007, of which \$1,993 was capitalized at the date the Company decided to re-purchase the vessels and later netted off against the re-purchase price of the vessels. Lease payments relating to the time charters of the *Decathlon* and *Pentathlon* were \$6,338 and \$7,149 respectively in 2008 and \$7,641 and \$7,329 respectively in 2007 and \$8,304 each in 2006, and are recorded in Charter hire expense.

**8. Interest and Finance Costs, net**

	2008	2007	2006
Interest expense	70,236	77,025	54,665
Less: Interest capitalized	(4,319)	(8,944)	(12,474)
Interest expense, net	65,917	68,081	42,191
Amortization of loan fees	944	921	1,495
Bank charges	566	611	1,352
Sub-total	67,427	69,613	45,038
Amortization of deferred loss on termination of financial instruments	1,132		
Reclassification adjustments on undesignated cash flow hedges			(5,087)
Change in fair value of non-hedging financial instruments	14,338	7,769	2,535
Sub-total	15,470	7,769	(2,552)
<b>Net total</b>	<b>82,897</b>	<b>77,382</b>	<b>42,486</b>

As of December 31, 2008, the Company was committed to twelve floating-to-fixed interest rate swaps with major financial institutions covering notional amounts aggregating \$922,115 on which it pays fixed rates averaging 4.77% and receives floating rates based on the six-month London interbank offered rate ( LIBOR ). (See Note 14).

During 2008, the Company entered into two new interest rate swap agreements that are accounted for as hedges of the Company's variable interest rate payments on bank loans. Also during 2008, three non-hedging and one hedging interest rate swap agreements reached maturity, and

the Company terminated four non-hedging interest rate swap agreements at an aggregated loss of \$1,132.

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**8. Interest and Finance Costs, net (continued)**

As at December 31, 2008, the Company held ten interest rate swap agreements in order to hedge its exposure to interest rate fluctuations associated with its debt. The fair value of such financial instruments as of December 31, 2008 and 2007 in aggregate amounted to \$73,849 (negative) and \$23,775 (negative), respectively. A part of one hedging interest rate swap was designated as being ineffective and the changes in fair value during 2008 on that ineffective part of \$1,610 has also been included in charges in fair value of non-hedging financial instruments above, with the remaining change in fair value reflected directly in Accumulated other comprehensive income in Stockholders' Equity.

At December 31, 2008, the Company held two interest rate swaps that did not meet hedge accounting criteria. As such, the changes in their fair values during 2008 have been included in change in fair value of non-hedging financial instruments, in the table above.

**9. Stockholders' Equity**

On November 14, 2007, the Company effected a two-for-one stock split relating to its common stock in the form of a share dividend. All share and per share amounts disclosed in the Financial Statements give effect to this stock split retroactively.

During 2008, the Company purchased 812,700 shares as treasury stock at a cost of \$21,937. In 2007, no treasury stock was purchased. In addition, repurchases of stock for cancellation for the years ended December 31, 2008 and 2007 amounted to \$12,232 and \$1,338, respectively. The transactions were open market based through the New York Stock Exchange.

The Company has a shareholder rights plan that authorizes to existing shareholders substantial preferred share rights and additional common shares if any third party acquires 15% or more of the outstanding common shares or announces its intent to commence a tender offer for at least 15% of the common shares, in each case, in a transaction that the Board of Directors has not approved.

In 2004, the shareholders approved a share-based incentive plan providing for the granting of up to 1,000,000 of stock options or other share-based awards to directors and officers of the Company, crew members and to employees of the related companies (the 2004 Plan). In June 2006, the Company granted a total of 20,000 restricted share units (RSUs) to the non-executive directors, to vest after one year.

In 2007, 186,000 restricted share units related to the 2004 Plan were issued to Company crew members, directors and officers and 394,000 to individuals employed by the related companies. On December 31, 2008, 50% of the grants vested with the remaining 50% vesting on December 31, 2010. A further 4,650 RSUs were issued to non-executive directors in June 2007 to vest after one year and 1,000 RSUs were issued to a non-executive director in June 2007 vesting immediately. Total compensation expense recognized in 2008 amounted to \$3,046 consisting of \$1,237 for employees and \$1,809 for non-employees. In 2007, total compensation expense was \$5,670 consisting of \$1,656 for employees and \$4,014 for non-employees. In 2006, compensation expense amounted to \$216 relating to employees only. Of the aggregate 605,650 RSUs awarded in 2007 and 2006, 311,650 had been vested and 11,000 forfeited as at December 31, 2008. As at December 31, 2008, the total compensation cost related to the non-vested RSUs for both employees and non-employees not yet recognized is \$1,019 (\$10,598 at December 31, 2007) and the weighted average remaining contractual life of outstanding grants is 2.0 years.

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**9. Stockholders Equity (continued)**

In 2008, 2007 and 2006, Accumulated other comprehensive income decreased with unrealized losses of \$48,464 and \$25,421, and increased with unrealized gains of \$3,666, respectively, that resulted from the changes in the fair value of financial instruments. In 2007 and 2006, Accumulated other comprehensive income increased with unrealized gains of \$953 and \$3,072, respectively, that resulted from the changes in the fair value of investments. In 2007 and 2006, Accumulated other comprehensive income decreased with losses of \$4,025 and \$5,087 respectively, that resulted from the reclassification of gains on undesignated cash flow hedges.

**10. Earnings per Common Share**

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the foregoing and the exercise of all stock options and grants of restricted stock (See Note 9) using the treasury stock method.

	2008	2007	2006
Net income available to common stockholders	\$ 202,931	\$ 183,171	\$ 196,404
Weighted average common shares outstanding	37,552,848	38,075,859	38,127,692
Dilutive effect of stock options			9,112
Dilutive effect of RSUs	494,286	158,220	4,248
Weighted average common shares diluted	38,047,134	38,234,079	38,141,052
<b>Basic earnings per common share</b>	<b>\$ 5.40</b>	<b>\$ 4.81</b>	<b>\$ 5.15</b>
<b>Diluted earnings per common share</b>	<b>\$ 5.33</b>	<b>\$ 4.79</b>	<b>\$ 5.15</b>

For 2008, 2007 and 2006, there were no stock options or RSUs considered anti-dilutive which would have resulted in their exclusion from the computation of diluted earnings per common share. The 585,650 shares of restricted common stock granted in 2007 and 20,000 shares restricted common stock granted in 2006 were considered dilutive and are included in the computation.

**11. Minority Interest in Subsidiary**

In August 2006, the Company signed an agreement with Polaris Oil Shipping Inc. (Polaris), an affiliate of Flota Petrolera Ecuatoriana (Flopec), by which Polaris acquired 49% of Mare Success S.A., a previously wholly-owned subsidiary of the Holding Company. Mare Success S.A. is the holding-company of two Panamanian registered companies which own respectively the vessels *Maya* and *Inca*. The agreement became effective on November 30, 2006, and for the year ended December 31, 2006, the Company recognized a gain of \$25,323. Mare Success S.A. is fully consolidated in the accompanying financial statements.



**12. Income Taxes**

Under the laws of the countries of the companies' incorporation and/or vessels' registration, the companies are not subject to tax on international shipping income. However, they are subject to registration and tonnage taxes, which have been included in Vessel operating expenses.

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**(Expressed in thousands of U.S. Dollars, except for share and per share data, unless otherwise stated)**

**12. Income Taxes (continued)**

The Company believes that it and its subsidiaries are exempt from U.S. federal income tax at 4% on U.S. source shipping income, as each vessel-operating subsidiary is organized in a foreign country that grants an equivalent exemption to corporations organized in the United States and the Company's stock is primarily and regularly traded on an established securities market in the United States, as defined by the Internal Revenue Code of the United States. Under the regulations, a Company's stock will be considered to be regularly traded on an established securities market if (i) one or more classes of its stock representing 50% or more of its outstanding shares, by voting power and value, is listed on the market and is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year; and (ii) the aggregate number of shares of stock traded during the taxable year is at least 10% of the average number of shares of the stock outstanding during the taxable year.

**13. Commitments and Contingencies**

As at December 31, 2008, the Company had under construction four Aframax tankers. The total contracted amount remaining to be paid for the four vessels under construction, plus the extra costs agreed as at December 31, 2008 was \$194,250. Scheduled payments as of December 31, 2008 are \$109,009 in 2009 and \$85,241 in 2010.

In the ordinary course of the shipping business various claims and losses may arise from disputes with charterers, agents and other suppliers relating to the operations of the Company's vessels. Management believes that all such matters are either adequately covered by insurance or are not expected to have a material adverse effect on the Company's results from operations or financial condition.

**14. Financial Instruments**

- (a) **Reclassification:** In the consolidated balance sheets for the years ended December 31, 2008 and 2007, the Company has reclassified the long-term portion of financial instruments previously recorded within current liabilities.
- (b) **Interest rate risk:** The Company's interest rates and loan repayment terms are described in Notes 6 and 9.
- (c) **Concentration of credit risk:** Financial Instruments consist principally of cash, trade accounts receivable, investments and derivatives. The Company places its temporary cash investments, consisting mostly of deposits, primarily with high credit qualified financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. The Company limits its credit risk with accounts receivable by performing ongoing credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivable and does not have any agreements to mitigate credit risk. The Company limits the exposure of non-performance by counterparties to derivative instruments by diversifying among counterparties with high credit ratings, and performing periodic evaluations of the relative credit standing of the counterparties.

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**14. Financial Instruments (continued)**

- (d) *Fair value:* The carrying amounts reflected in the accompanying Consolidated Balance Sheet of financial assets and accounts payable approximate their respective fair values due to the short maturity of these instruments. The fair value of long-term bank loans with variable interest rates approximate the recorded values, generally due to their variable interest rates. The present value of the future cash flows of the portion of one long-term bank loan with a fixed interest rate is estimated to be approximately \$117,662 as compared to its carrying amount of \$106,019 (Note 6). The fair value of the investment discussed in Note 3 equates to the amounts that would be received by the Company in the event of sale of that investment. The fair value of the interest rate swap agreements discussed in Note 8 above are determined through Level 2 of the fair value hierarchy as defined in FAS 157 Fair Value Measurements are derived principally from or corroborated by observable market data, interest rates, yield curves and other items that allow value to be determined.

**15. Subsequent Events**

On March 19, 2009, the Board of Directors resolved that a dividend of \$0.85 cents per share will be paid on April 30, 2009 to shareholders of record on April 24, 2009.