TSAKOS ENERGY NAVIGATION LTD
Form 20-F
April 20, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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, 2005

OR

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

For the transition period from ______ to ______

Commission file number 001-3136

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

011-30210-9407710

(Address of principal executive offices)

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, 2005, there were 19,177,195 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 x

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 x

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 x 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 x Non-accelerated filer ¨

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 x

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 x

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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 and demand for crude oil and petroleum products;

demand for crude oil and petroleum product 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 supply and demand;

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 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 statement 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.

Item 3. Key Information

Selected Consolidated Financial Data

The following table presents selected consolidated financial and other data of Tsakos Energy Navigation for each of the five years in the five year period ended December 31, 2005. The table should be read together with Item 5. Operating and Financial Review and Prospects. The selected consolidated financial data of Tsakos Energy Navigation 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, 2002, 2003, 2004 and 2005 by Ernst & Young (Hellas) Certified Auditors Accountants S.A. (Ernst & Young), independent auditors, and for the year ended December 31, 2001 by Arthur Andersen (Arthur Andersen), independent auditors.

On May 30, 2002, we dismissed Arthur Andersen as our independent auditors. The report of Arthur Andersen on the Company s financial statements for the year ended December 31, 2001 did not contain an adverse opinion, disclaimer of opinion or qualification or modification as to uncertainty, audit scope or accounting principles. During the year ended December 31, 2001, there were no disagreements with Arthur Andersen on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedures. During the year ended December 31, 2001, there were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

At the same time as the Company dismissed Arthur Andersen as its auditors, it engaged Ernst & Young to act as its independent auditors as successor to Arthur Andersen. During the year ended December 31, 2001 and the subsequent interim period to May 30, 2002, the Company did not consult with Ernst & Young regarding (i) either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company s financial statements, or (ii) any matter that was either the subject of disagreement on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K).

The action to dismiss Arthur Andersen as the Company s independent auditors and to replace them with Ernst & Young was taken by the board of directors on the recommendation of its audit committee.

Our audited consolidated statements of income, stockholders equity and cash flows for the years ended December 31, 2003, 2004 and 2005, and the consolidated balance sheets at December 31, 2004 and 2005, together with the notes thereto, are included in Item 18. Financial Statements and should be read in their entirety.

Selected Consolidated Financial and Other Data

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

	2001	2002	2003	2004	2005
Income Statement Data					
Voyage revenues	$ 125,029	$ 130,004	$ 241,365	$ 318,278	$ 295,623
Expenses					
Commissions	6,379	6,364	11,296	13,065	11,604
Voyage expenses	14,395	25,125	48,152	42,109	35,970
Charter hire expense	7,041	7,713	13,145	24,341	24,317
Vessel operating expenses (1)	28,695	32,347	49,949	53,900	52,945
Depreciation	21,250	24,429	32,877	35,377	35,697
Impairment loss		10,781			
Amortization of deferred dry-docking costs	5,119	4,315	7,835	8,753	6,583
Provision for doubtful receivables			700	933	40
Management fees	3,132	3,239	4,470	5,328	5,460
Stock option compensation expense	258				
General and administrative expenses	792	1,261	2,415	3,099	3,631
Management incentive award				2,500	2,500
Foreign currency losses (gains)	24	84	389	185	(181)
Amortization of deferred gain on sale of vessels			(541)	(3,167)	(3,168)
Gain on sale of vessels				(13,608)	(34,540)
Operating income	37,944	14,346	70,677	145,463	154,765
Other expenses (income):					
Gain on sale of non-operating vessels				(7,757)	(10,765)
Interest and finance costs, net	14,542	11,385	12,372	10,135	11,247
Interest income	(1,214)	(736)	(387)	(761)	(7,360)
Share of profits of joint-venture		(197)	(602)		
Other, net			242	556	(112)
Total other expenses (income), net	13,328	10,452	11,625	2,173	(6,990)
Net income	$ 24,616	$ 3,894	$ 59,052	$ 143,290	161,755
Per Share Data					
Earnings per share, basic	$ 2.56	$ 0.25	$ 3.45	$ 7.53	$ 8.18
Earnings per share, diluted	$ 2.54	$ 0.25	$ 3.44	$ 7.51	$ 8.17
Weighted average number of shares, basic	9,634,323	15,717,065	17,134,347	19,034,727	19,772,270
Weighted average number of shares, diluted	9,705,381	15,854,904	17,187,859	19,080,975	19,786,846
Dividends per common share, paid	$	$ 0.50	$ 0.70	$ 1.20	$ 1.95
Cash Flow Data					
Net cash from operating activities	43,454	32,745	84,184	153,606	146,903
Net cash used in investing activities	(19,109)	(256,984)	(91,837)	(92,663)	(108,969)
Net cash from (used in) financing activities	(20,841)	230,639	54,792	(30,834)	(9,087)
Balance Sheet Data					
Cash and cash equivalents	$ 33,274	$ 39,674	$ 86,813	$ 116,922	$ 145,769
Cash, restricted	7,815	7,000		1,453	271
Investments				10,000	32,121
Advances for vessels under construction	33,008	41,963	33,420	121,260	150,428
Vessels, net book value	345,463	553,143	654,662	636,274	711,362
Total assets	444,261	694,545	825,507	938,969	1,089,174
Long-term debt, including current portion	244,459	385,952	452,620	365,164	433,519
Total stockholders equity	171,068	267,444	314,569	519,521	607,186
Fleet Data					
Average number of vessels (2)	16.0	18.0	25.7	27.3	26.1
Number of vessels (at end of period) (2)	16.0	22.0	27.0	26.0	25.0

Average age of fleet (in years) (3)		9.3		6.8		6.5		7.5		6.3
Earnings capacity days (4)		5,840		6,587		9,386		9,988		9,527
Off-hire days (5)		81		410		663		241		335
Net earnings days (6)		5,759		6,177		8,723		9,747		9,192
Percentage utilization (7)		98.6%		93.8%		92.9%		97.6%		96.5%
Average TCE per vessel per day (8)	$	19,002	$	16,676	$	22,639	$	28,722	$	28,645
Vessel operating expenses per ship per day (9)	$	5,622	$	5,498	$	5,946	$	6,286	$	6,534
Vessel overhead burden per ship per day (10)	$	672	$	683	$	734	$	1,094	$	1,217

(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, but excludes vessels from the Company s joint venture, LauriTen Ltd., which existed between October 2002 and August 2003.

(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 positions 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. 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.

(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 and general and administrative expenses divided by the total number of earnings capacity days.

Capitalization and Indebtedness

Not Applicable.

Reasons For the Offer and Use of Proceeds

Not Applicable.

Risk Factors

Risks Related To Our Industry

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 economic expansion in the U.S., Chinese and Indian economies, and the improved performance of the Japanese economy, with their impact on Pacific Rim and Latin American activity, maintained, albeit at a slower pace, the strong demand for crude oil and oil products seen during 2004 and 2005. The strong demand for crude oil and oil products was also supported by seasonal and environmental factors and the need to restore depleted oil inventories in the U.S. and the other major Organization for Economic Cooperation and Development importing countries. However, if the production of and demand for crude oil and petroleum products slow in the future, a corresponding decrease in shipments of these products could have an 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, contracts of affreightment and vessels employed in pools 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.

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 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.

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

An attack like those of September 11, 2001 or longer-lasting wars or international hostilities, including those currently in Afghanistan and Iraq, could damage the world economy, 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 our business, financial condition and results of operations may be adversely affected by changing economic, political and government 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.

As our current charters expire, new charters at attractive rates may not be available.

In 2005, we derived approximately 47% of our revenues from time charters, as compared to 37% in 2004. As the current period charters of our vessels expire, it may not be possible to re-charter these vessels on a period basis at attractive rates. 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 subject to significant fluctuations, and tankers traded in the spot market may experience substantial off-hire time.

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 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.

Oil industry developments, competition among tanker operators and evolving regulatory requirements will compel us to renew our fleet and make ongoing capital expenditures.

During the down cycle in the oil industry in late 1998 and 1999, the oil industry experienced consolidation with the announcement or completion of several combinations among major oil companies, as well as consolidations involving tanker operators. As a result, the major oil companies have started to focus their chartering requirements with a smaller number of shipping companies that possess large and diversified modern fleets that are compliant with the increasingly stringent environmental regulations applicable to tanker operators.

To address these developments, we intend to expand and further renew our fleet by pursuing the acquisition or construction 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. In addition, we are exploring opportunities in the liquefied natural gas (LNG) market to expand our exposure in the overall energy sector. However, the world s leading tanker and LNG shipyards have little or no additional capacity until the middle of 2009 and we may not be able to purchase or construct additional vessels, other than those currently on order, on commercially acceptable terms. If we seek to expand through the acquisition of other tanker or LNG companies, we face numerous challenges, including:

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;
- impairment of acquired assets, which would reduce future reported earnings; 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. Furthermore, certain countries have already banned single-hull tankers carrying heavy grades of oil from approaching their coastlines or entering their ports. However, due to our current trading patterns, we do not believe these restrictions will have a material effect on our operations and, as with all vessels in our fleet, we will continue to evaluate the usefulness of our single-hull vessels, their marketability and their compatibility with our chartering strategies. 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 & Trading (Tsakos Shipping) or Tsakos Energy Management, members of the Tsakos Group 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), 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.

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;
- 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. The events of September 11, 2001 led to increases in our insurance premium rates and the implementation of special war risk premiums for certain trading routes. The more recent natural disasters, such as the hurricanes striking the United States, have led to yet further increases. For 2004-2005, our P&I club insurance premiums increased for several of our vessels by approximately 21%, but for others the increase was minimal. Our hull and machinery insurance premiums also increased in certain cases by 9%, but in others by less than 3%. Increases of up to 15% for P&I club insurance premiums and up to 10% for hull and machinery insurance premiums are expected for 2006-2007. 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. These increases in insurance rates would 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 ship owning 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

We depend on companies that are part of the Tsakos Group 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 believe our access to world-class charterers could be diminished, our management costs could increase and our profitability could be adversely affected.

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 knowledge or 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, 2005 would have resulted in a payment of approximately $79.0 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 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, which is an affiliate of Tsakos Shipping, would probably 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.

Tsakos Shipping manages three VLCC tankers, two double-hull and one single-hull, that operate under long term bareboat charters, plus four other tankers aged over twenty years, in addition to the vessels that it manages for us. 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 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.

Members of the Tsakos Group may acquire vessels that 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 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 members of the Tsakos Group might decide to accept the opportunity. In that case, they could be in competition with our fleet and be faced with 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 an officer, director and the sole shareholder of Tsakos Energy Management. Nikolas Tsakos is also the son of the founder and chief executive officer 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 the Tsakos Group. 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.

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. For example, in the latter part of 2002, the sinking of the *Prestige* and related events occurred which in the ensuing period has had an impact on the valuation of single-hull vessels. Consequently, in 2002 we determined that our single-hull vessels, *Panos G* and *Liberty*, were impaired and recorded a $10.8 million impairment loss for the year ended December 31, 2002. No such impairment loss was incurred for the years ended December 31, 2003, 2004 and 2005.

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 sponsors two marine academies in the

Philippines and has opened 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 purchase sixteen newbuildings, including one LNG carrier, that are scheduled for delivery during 2006, 2007 and 2008. 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. The acquisition of LNG carriers could expose us to additional risks since neither Tsakos Energy Management nor Tsakos Shipping has prior experience in managing and transporting LNG.

The profitability of our LNG vessel under construction will be 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 newbuilding LNG contract or the actual vessel once delivered. If we opt to exit this sector, for whatever reason, we might have to sell the contract at a price below the original contract price and subsequently suffer an economic loss or might be forced to take delivery of the vessel and operate it in unprofitable or breakeven levels.

We have yet to secure employment for our LNG newbuilding.

We have purposely refrained from fixing employment for the vessel in expectation of securing a better rate and terms, closer to the date of delivery in 2007, than currently available. If the market experiences a downturn in the next two years we might not be able to secure employment at all or be obliged to accept charters for rates materially below those originally factored into our investment evaluation.

The effectiveness of attaining accretive charters would be determined by the experience of Tsakos Shipping LNG dedicated personnel.

All LNG commercial management services would be subcontracted to Tsakos Shipping as is customary with our existing tanker operations. However, neither Tsakos Energy Management nor Tsakos Shipping have as of now dedicated personnel for running LNG operations nor can we guarantee that they will employ an adequate number of employees by the time we take delivery of our first LNG carrier. In addition, we can not guarantee that these employees, both onshore and at-sea will prove adequate in their assigned role.

The technical management of our LNG vessel will largely rely on third parties with whom we have no prior experience of cooperation.

We intend to subcontract all technical management aspects of our LNG operation to a reputable third party for a fee. We can not guarantee the quality of their services nor the longevity of the management contract.

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 and in the spot market in a manner that will optimize our earnings. As of December 31, 2005, 14 of our tankers were contractually committed to period employment. The remaining terms of 12 of these period charters range from one month to three years and, in the case of the Suezmax vessel *Triathlon* six years. For the vessel on bareboat charter, *Millennium*, the remaining term is 7.5 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.

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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 the charterer under one of our bareboat charters is unable to perform under the charter, we may lose revenues.

We currently have a bareboat charter contract for the *Millennium* 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 the bareboat charter, which is scheduled to expire in 2013. This could result in the loss of significant revenue. For 2005, revenue under this charter totaled $9.3 million. 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.

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 $210 million, for three of the sixteen vessels that we have on order, H-1754 (LNG carrier for delivery in January 2007) and H-1342 and H-1344 (two Aframaxes for delivery towards the end of 2008). 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 are unable to finance further installments for the newbuildings we have on order, we may 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 sixteen 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 vessel 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.

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 the Liquefied Petroleum Gas (LPG) market and the greater oil onshore / offshore sector. To this end, in June 2004 we contracted for the purchase of an LNG carrier. 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. This could happen, for example, if we determined to purchase additional ships with the necessary cooling capacity to transport LNG.

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 member of the Tsakos Group, and P&I clubs as is appropriate and consistent with industry practice. However, particularly in view of the conflicts in Afghanistan, Iraq and elsewhere, 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, 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 the Tsakos Group. 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, 2005, our debt to capital ratio was 42% (debt/debt plus equity), with $433.5 million in long-term debt outstanding. Assuming known and estimated debt financing arrangements for our future newbuilding deliveries and recently announced acquisitions and based on our current forecasts of income for 2006 and 2007, we expect this ratio to be at approximately 63% by the end of December 2007, but declining thereafter. We are required to apply a substantial portion of our cash flow from operations, before interest payment, to the payment of principal and interest on this debt. In 2005, approximately 28% of cash flow derived from operations was dedicated to debt service, excluding debt prepayment from the sale of vessels and from the proceeds of the equity offering in 2004. 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;
- 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.

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

In the past five years we have selectively entered into derivative contracts both for investment purposes and to hedge our overall interest expense. Although our board of directors has reviewed and approved all our derivative contracts as being within reasonable limits and reasonable in light of our particular investment strategy at the time we entered into each such derivative contract, until August 2001 our board had not adopted any formal policy or qualitative or quantitative limitations on the scope of our investing activities with respect to derivative instruments.

Prior to the decision of our board in 2002 to enter into interest rate swap arrangements and other derivative instruments solely for purposes of hedging our interest rate exposure under our floating rate secured bank facilities, we entered into non-hedging arrangements. 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 losses.

In August 2001, our board adopted a risk management policy and established a risk committee consisting of Messrs. Stavropoulos, Nicholson, Tsakos and our chief financial officer, Mr. Durham, 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 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 adversely impacted by recent events.

The appraised value 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.

We have pledged all of our vessels and related collateral as security to the 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 drydocking costs which could affect our cash flow and financial condition.

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

A significant amount of our 2005 revenues were derived from three customers and a significant amount of our 2004 revenues were derived from three customers, and our revenues could decrease significantly if we lost these customers.

In 2005, approximately 16% of our revenues came from contracts of affreightment for three of our tankers with Lyondell/Citgo, compared to 19% in 2004. Also in 2005, approximately 11% of our revenues came from Petrobras and approximately 11% of our revenues derived from Star Tankers. Our inability or failure to continue to employ our vessels at rates comparable to those earned from Lyondell/Citgo, Petrobras and Star Tankers, 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 16% of our revenue is derived from our customers that conduct a significant amount of business in Venezuela.

Lyondell/Citgo, accounted for approximately 16% of our revenues for the year ended December 31, 2005 and taken together with PDVSA accounted for approximately 20% of our revenue for the year ended December 31, 2004. Those two companies conduct a significant amount of business in Venezuela. In 2005 we did not conduct any business with PDVSA but we may conduct business with them in the future. Venezuela has experienced economic difficulties and social and political changes in recent years. During late 2002, the country experienced a six week general strike during which commercial and industrial activity ceased generally and PDVSA s oil production and refining facilities were out of operation and oil production ceased. Although the strike was over by the end of January 2003 and the situation improved, there has been political unrest in 2004 and we cannot say whether there will be further unrest or political upheavals in Venezuela or whether PDVSA will enjoy uninterrupted oil production. If we were to lose these customers, or if their exports were curtailed, or if these customers were 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 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 United States federal tax rules applicable to international shipping income derived by qualifying non-United States corporations we will be eligible for a special statutory exemption if we satisfy the so-called publicly-traded test set forth in Section 883 of the Internal Revenue Code of 1986, as amended. Under Treasury regulations interpreting the publicly-traded test that apply for 2005 and subsequent taxable years, if persons (other than certain investment companies) each of whom, either directly or under applicable attribution rules, owns five percent or more of our common shares own in the aggregate fifty percent or more of our common shares, we could satisfy the publicly-traded test only if a sufficient portion of our shareholders were qualifying shareholders (generally, shareholders that are individuals residents in foreign countries which grant an exemption from tax that is equivalent to the exemption provided in Section 883 of the Internal Revenue Code) and complied with potentially onerous documentation requirements. Although we believe we currently satisfy all requirements for exemption, there may be a limited possibility that we may not satisfy the publicly-traded test for our current taxable year or any future taxable year. If we were to fail to qualify for the statutory exemption, we expect that we would be subject to United States taxation at a rate of 4% levied on half of our gross shipping income attributable to transportation beginning or ending in the United States or, for example, United States tax of approximately $2.9 million in 2005.

If our U.S. source income from international transportation did not qualify for exemption from U.S. federal taxation in 2005 or prior years, we would have a liability for tax, together with interest and penalties.

In 2001 and prior years, in order for our U.S. source income from international transportation to qualify for exemption for U.S. federal income taxation, more than 50% of our shares, by value, must have been owned, directly or indirectly, by individuals resident in qualified foreign countries (generally, countries that provide an exemption from tax equivalent to that provided in Section 883 of the Internal Revenue Code). While we believe that the ownership of our common shares was such that this requirement was satisfied, our common shares were listed on the Oslo Børs and many of our common shares were held by nominees or entities. Thus, we have not established that we will be able to demonstrate the required level of direct or indirect ownership by individuals resident in qualified foreign jurisdictions. If it were determined that the ownership requirement was not satisfied for a given year, we would be liable for U.S. federal income tax at a 4% rate on our gross U.S. source income from international transportation for such years, together with related interest and penalties. If it were determined that the ownership requirement was not satisfied for, 2003 or 2004 or 2005, and we were unable to establish that we satisfied a publicly-traded test similar to that described above for such year, we would be liable for U.S. federal income tax at a 4% rate on our gross U.S. source income from international transportation for such year, together with related interest and penalties.

During the years 1998 through 2005, approximately $275 million of our consolidated gross income was U.S. source income derived from international transportation beginning or ending in the United States. Therefore, if we did not qualify for the exemption from U.S. federal taxation described above for such years, we would owe U.S. tax for those years in an aggregate amount equal to approximately $11 million, plus any applicable interest and penalties.

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 2006 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. Moreover, the IRS may disagree with our position that time and voyage charters do not give rise to passive income for purposes of the PFIC rules. Accordingly, we can provide no assurance that we will not be treated as a PFIC for 2006 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, 2009, 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 so qualify for our current or future taxable years.

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 2004 and 2005, euro expenses accounted for approximately 25% of our total 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.

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

As of December 31, 2005, companies controlled by the Tsakos Holdings Foundation or affiliated with the Tsakos Group own approximately 32% 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. The Tsakos Group is a group of companies controlled by members of the Tsakos family and is primarily involved in the management of ships. As long as the Tsakos Holdings Foundation and the Tsakos Group 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 2005, we paid a cash dividend of $1.00 per common share in relation to the year 2005. In April 2006, we intend to pay a further dividend of $1.10 per common share relating to 2005. 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, in our management agreement with Tsakos Energy Management and in our shareholder rights plan would make it difficult for a third party to acquire us, even if such a transaction would be 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.

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 that a shareholder in a U.S. corporation may have.

We are a Bermuda corporation. Our Memorandum of Association and Bye-laws and 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, 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

We are a leading provider of international seaborne crude oil and petroleum product transportation services. We were 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 on the Oslo Stock Exchange and the Bermuda Stock Exchange in 1993 although our shares are no longer actively traded on either exchange. As of February 23, 2005, the Board of Directors resolved to de-list our common shares from the Oslo Stock Exchange since there was limited trading in our shares on this exchange. Accordingly, the de-listing became effective on March 18, 2005. Since our incorporation, we have owned and operated 37 vessels and have sold 12 vessels (of which 3 have been chartered back). In July 2001, we changed our name 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 our common shares in the United States and our common shares began trading on the New York Stock Exchange. The address of our registered office in Bermuda is 43 Victoria Street, Hamilton HM08, Bermuda. Our executive offices are located at 367 Syngrou Avenue, P. Faliro, 175 64 Athens Greece. Our telephone number from the U.S. is (011) 30210-9407710.

A list of our active subsidiaries as of March 15, 2006, all of which are wholly owned by us, and their jurisdictions of incorporation, is set forth in Exhibit 8 to this annual report.

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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 strategic focus on meeting our customers   chartering needs, has contributed to our ability to attract leading charterers as our customers and to our success in obtaining charter renewals.

We are managed by the Tsakos Group which, through Tsakos Shipping, is one of the world s largest independent tanker managers, based on the number of tankers under management. The Tsakos Group is a group of private companies controlled by members of the Tsakos family and is primarily involved in the management of ships.

Tsakos Shipping is one of the largest independent tanker managers with 36 tankers and a total of 54 operating vessels under management (with a further 28 to be delivered, 16 of which are vessels under construction for Tsakos Energy Navigation and a further seven are acquired vessels to be delivered within the next two months). 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.

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 3.5 million dwt at March 15, 2006 (including three chartered-in vessels) with no significant adverse impact on the organization. In addition, our per vessel daily overhead costs, despite recent increases, remain less than during the early years of our existence.

We have access to Tsakos Shipping s network of seven offices around the world and a pool of approximately 3,000 seafarers, which is supported by Tsakos Shipping s sponsorship of two naval academies in the Philippines and a Tsakos Shipping manning office in Odessa, Ukraine.

As of March 15, 2006, our fleet consisted of 28 tankers (including three chartered-in vessels), of which three are VLCC tankers, eight are Suezmax tankers, seven are Aframax tankers, seven are Panamax tankers and three are Handysize product carriers. 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 due to economies of scale and proximity considerations. The current fleet totals approximately 3.5 million dwt, of which only 2.7% is single-hulled as measured by dwt. This compares favorably to the worldwide average of 31% single-hulled dwt as of March 15, 2006. As of March 15, 2006 the average age of the tankers in our current operating fleet was 6.4 years, compared with the industry average of 11.5 years.

In addition to the vessels currently operating in our modern and diverse fleet, we have under building contract an additional 16 vessels, as well as an agreement to acquire an additional seven modern second-hand vessels. In the first quarter of 2006, the Company took delivery of two 1A ice-class Suezmax tankers, *Archangel* and *Alaska*. During the remainder of 2006 the Company expects to take delivery of one 2004-built Handysize product carrier and six 2005-built 1A ice-class MR product carriers. It also expects to take delivery of five newbuildings (three LR 1A ice-class product carriers and two Handysize 1A ice-class product carriers). Finally, in 2007, expected deliveries include an additional two ice-class Suezmax tankers, a further four ice-class Handysize product carriers, two Aframax tankers of a DNA design and an LNG carrier. In 2008 the Company expects delivery of a further two Aframax tankers of a DNA design. The resulting fleet (assuming no sales) would comprise 51 vessels with 5.3 million dwt, which will include 43 vessels built since 1998 of 4.3 million dwt.

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

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. We believe this approach has resulted in high utilization rates for our vessels. At the same time, we maintain flexibility in our chartering policy, which allows capacity 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 95.8%.

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.

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 almost $2.8 billion, including investments of approximately $2.0 billion in newbuilding constructions, in order to maintain and improve the high 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 agencies. Tsakos Shipping, the technical manager of our fleet, has received ISO 14001 certification, based in part upon audits conducted on our vessels.

Established industry recognition. For over 35 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, including Lyondell/Citgo, PDVSA, Exxon/Mobil, FLOPEC, Shell, Sunoco, PMI, Lukoil and Petrobras are among the regular customers of the Tsakos Group and of Tsakos Energy Navigation, in particular.

Diversified fleet offerings. Our diversified fleet, which includes VLCC, Suezmax, Aframax, Panamax, and Handysize tankers, allows us to better serve our customers international crude oil and petroleum product transportation needs. We have also committed an extensive segment of our newbuilding and acquisition program to ice-class vessels, 17 over the next two years, to add to our existing seven ice-class vessels. Additionally, we have announced our intention to enter the LNG market by the year 2007 and have contracted for the purchase of one LNG carrier.

Our Fleet

Our current fleet as of March 15, 2006:

Vessel	Year Built	Year Acquired	Hull Type (8)	Deadweight Tons	Charter Type	Expiration of Charter
VLCC						
Millennium	1998	1998	DH	301,171	bareboat charter	September 2013
La Madrina	1994	2004	DH	299,700	spot	
La Prudencia	1993	2006	DH	298,900	spot	
SUEZMAX						
Silia T	2002	2002	DH	164,286	time charter	September 2006
Cape Baker (1)	2002	2002	DH	164,274	time charter	September 2006
Cape Balboa (1)(2)	2002	2002	DH	164,236	time charter	October 2006
Triathlon (3)	2002	2002	DH	164,445	time charter	January 2011
Eurochampion 2004	2005	2005	DH ice-class 1C	164,608	spot	
Euronike	2005	2005	DH ice-class 1C	164,565	time charter	September 2006
Archangel	2006	2006	DH ice-class 1A	163,216	spot	
Alaska	2006	2006	DH ice-class 1A	163,250	spot	
AFRAMAX						
Parthenon (4)(5)	2003	2003	DH	107,081	contract of affreightment	Evergreen
Marathon (5)(6)	2003	2003	DH	107,181	contract of affreightment	August 2007
Opal Queen	2001	2002	DH	107,222	time charter	October 2007
Olympia (1)	1999	1999	DH	107,181	spot	
Maria Tsakos	1998	1998	DH	107,181	spot	
Athens 2004 (4)(5)	1998	1998	DH	107,181	contract of affreightment	Evergreen
Vergina II	1991	1996	SH	96,709	time charter	April 2006
PANAMAX						
Andes	2003	2003	DH	68,467	pool	Evergreen
Maya (7)	2003	2003	DH	68,467	time charter	September 2007
Inca (7)	2003	2003	DH	68,467	time charter	May 2008
Aztec	2003	2003	DH	68,467	pool	Evergreen
Victory III	1990	1996	DH ice-class 1C	68,160	pool	Evergreen
Hesnes	1990	1996	DH ice-class 1C	68,157	pool	Evergreen
Bregen	1989	1995	DH ice-class 1C	68,157	pool	Evergreen
HANDYMAX / HANDYSIZE						
Didimon (2)	2005	2005	DH	37,432	time charter	February 2008
Libra	1988	1994	DS	41,161	spot	
Crux	1987	1995	DS	41,161	time charter	March 2006
Total				3,550,483		

(1) The *M/T Decathlon* and *M/T Pentathlon* were sold through a sale and leaseback arrangement in November 2003 and are time-chartered back by us for a minimum period of five years. The vessels have been re-named by the new owner *Cape Baker* and *Cape Balboa*. We have the option to purchase these vessels from their owners. We charter *M/T Olympia* from its owner pursuant to a time charter that expires in October 2007. We have an option to purchase this vessel as from December 31, 2006. The owner of the vessel also has the option to require us to purchase the vessel. (For additional information relating to our arrangements with respect to this vessel, see Item 5. Operating and Financial Review and Prospects Sale and Leaseback Transaction and Note 6 to our financial statements included in Item 18. Financial Statements below.)

(2) The charter rate for this vessel is based on a minimum rate for the Company plus different levels of profit sharing above the minimum rate, settled on a calendar month basis.

(3) The charterers of the vessel have the option to employ the vessel upon completion of the initial 7-year time charter for an additional 3 years.

(4) Freight is based on a market-related formula.

(5) Evergreen employment has no specific expiration. The vessel is continuously employed until either we or the charterer request cancellation upon 30 days notice (in the case of contract of affreightment) or 90 days notice in the case of pool operations, with freight rates based on prevailing spot rates.

(6) Freight is based on a minimum/maximum market-related formula.

(7) 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.

(8) DH-double-hull, SH-single-hull, DS-double-side. 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.

Our newbuildings under construction

As of March 15, 2006, we have on order and expect to take delivery between 2006 and 2008 16 new vessels currently under construction. These consist of two 1A ice-class Suezmaxes from Hyundai Heavy Industries, four Aframaxes of a DNA design from Sumitomo Heavy Industries, three 1A ice-class LR Aframaxes from Hyundai Heavy Industries, four 1A and two 1B ice-class Handysize product carriers under from Hyundai MIPO Dockyard and one LNG carrier from Hyundai Heavy Industries. The newbuildings have a double hull design compliant with all classification requirements and prevailing environmental laws and regulations. Hyundai MIPO and Hyundai Heavy Industries are experienced designers and builders of ships. Tsakos Shipping has worked closely with these Korean shipyards and the Sumitomo yard in Japan in the design of the newbuildings and will continue to work with Hyundai MIPO, Hyundai Heavy Industries and Sumitomo Heavy Industries during the construction period.

Our newbuildings under construction as of March 15, 2006:

	Expected Delivery	**Hull Type (all double-hull)**	**Deadweight Tons**	**Ship Yard**	**Purchase Price (in millions of U.S. dollars)**	
HANDYSIZE						
Antares	June 2006	ice-class 1A	36,660	Hyundai MIPO	$	30.0
Arion	October 2006	ice-class 1A	36,660	Hyundai MIPO	$	30.0
Andromeda	February 2007	ice-class 1A	36,660	Hyundai MIPO	$	30.0
Aegeas	May 2007	ice-class 1A	36,660	Hyundai MIPO	$	30.0
Byzantion	May 2007	ice-class 1B	37,340	Hyundai MIPO	$	44.0
Bosporos	September 2007	ice-class 1B	37,340	Hyundai MIPO	$	44.0
SUEZMAX						
Arctic	February 2007	ice-class 1A	162,400	Hyundai Heavy Industries	$	57.4
Antarctic	April 2007	ice-class 1A	162,400	Hyundai Heavy Industries	$	57.4
LR AFRAMAX						
Hull S-1650	May 2006	ice-class 1A	116,000	Hyundai Heavy Industries	$	72.5
Hull S-1651	August 2006	ice-class 1A	116,000	Hyundai Heavy Industries	$	72.5
Hull S-1652	October 2006	ice-class 1A	116,000	Hyundai Heavy Industries	$	72.5
AFRAMAX						
Hull S-1328	May 2007	DNA	105,000	Sumitomo Heavy Industries	$	47.3
Hull S-1334	June 2007	DNA	105,000	Sumitomo Heavy Industries	$	58.6
Hull S-1342	November 2008	DNA	105,000	Sumitomo Heavy Industries	$	58.9
Hull S-1344	November 2008	DNA	105,000	Sumitomo Heavy Industries	$	58.9
LNG						
Hull S-1754	January 2007	Membrane	73,800	Hyundai Heavy Industries	$	173.5
Total.			1,387,920		$	937.5

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 15, 2006, we had made progress payments of $188.6 million out of the total purchase price of approximately $937.5 million for these newbuildings. Of the remaining amount, a further $194.0 million will be paid during 2006.

While we intend to expand our fleet, attractive opportunities may arise to sell one or more of our vessels, including the 16 newbuildings we have on order, and our board of directors may conclude that the sale of one or more vessels would be in our best interest.

Fleet Development

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. 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 2005 and 2004 as a percentage of operating days.

	Year Ended December 31,	
	2005	2004
Employment Basis		
Time Charter fixed rate	42%	41%
Time Charter variable rate	20%	14%
Period Employment at variable rates	23%	22%
Spot Voyage	15%	23%
Total Net Earnings Days	9,192	9,747

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, but with variable rates related to the market are either in a pool 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 under a management contract. Tsakos Energy Management s duties include overseeing the purchase, sale and chartering of vessels, supervising day-to-day technical management of our vessels and providing financial, accounting and other services, including stock exchange and 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.

The following chart illustrates the management of our fleet:

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 the board of directors and subject to the approval of our board of directors as described below. We pay Tsakos Energy Management monthly management fees for its management of our vessels. Beginning July 1, 2004, we pay Tsakos Energy Management management fees of $18,000 per owned vessel per month and $12,500 per chartered-in vessel per month. 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 $5.5 million in 2005. 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 and part of the Tsakos Group, manages 54 tankers, operating and under construction, and in excess of 75 vessels operating and under construction, totaling approximately 6.8 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 3,000 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, Singapore, Tokyo, Shanghai and Odessa. 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.

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 paid Tsakos Shipping $49.1 million in 2005 for the operating costs of our vessels. We generally pay all monthly operating requirements of our fleet in advance. At December 31, 2005, we had outstanding advances to Tsakos Shipping of approximately $1.2 million in respect of such expenses.

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 agent for the lenders under our secured credit facility 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 $3.7 million in 2005.

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

the monitoring of 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;

the 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 also obliged to dry-dock the vessel in connection with its intermediate survey two and one-half years after the last special 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 time periods during which our vessels are in dry-dock are, on average, shorter than those prevalent in the industry due to the rigorous on-going maintenance program we conduct.

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.

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 the regular customers of the Tsakos Group and of Tsakos Energy Navigation, in particular. The table below shows the approximate percentage of revenues we earned from some of these customers in 2005.

	Year Ended
Customer	**December 31, 2005**
Lyondell/Citgo	16%
Petrobras	11%
Star Tankers	11%
FLOPEC	9%
PMI	7%
Exxon/Mobil	5%
Sunoco	4%
Sibneft	4%
BP	3%
Shell	2%
Tesoro	2%
Chevron	1%

Regulation

Our business and the operation of our vessels are materially affected by government regulation in the form of international conventions, 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 and certificates with respect to our operations. Subject to the discussion below and to the fact that the kinds of permits, licenses and certificates 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 and certificates material to the conduct of our operations.

We believe that the heightened environmental and quality concerns of 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. In March 1992, the International Maritime Organization (IMO) adopted regulations which set forth new and upgraded requirements for 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 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 which 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.

In April 2001, the IMO adopted a proposal to revise these regulations which became effective in September 2002. The revised regulations provide for a more aggressive phase-out of single-hull oil tankers, as well as increased inspection and verification requirements. The revised regulations provide for the phase-out of most single-hull oil tankers 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 constructed after 1983. The changes, which will likely increase the number of tankers that are scrapped beginning in 2004, 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 m.t. Prestige, which was owned by a company not affiliated with us, in December 2003 the Marine Environment Protection Committee of the IMO (MARPOL) adopted a proposed amendment to the International Convention for the Prevention of Pollution from Ships to accelerate 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 proposed amendment became effective on April 5, 2005.

The IMO has also negotiated international conventions that impose liability for oil pollution in international waters and a signatory s territorial waters. In September 1997, the IMO adopted Annex VI to the MARPOL to address air pollution from ships. Annex VI came into force on May 19, 2005. Annex VI 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. Vessels that are subject to Annex VI must, if built before the effective date, obtain an International Air Pollution Prevention Certificate evidencing compliance with Annex VI not later than either the first dry docking after May 19, 2005, but no later than May 19, 2008. All vessels subject to Annex VI and built after May 19, 2005 must also have this Certificate. 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. We are formulating a plan to comply with the Annex VI regulations once they come into effect.

In addition, the Company s new LNG carrier will be 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.

In addition, liquefied gas carriers are 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 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. The IMO recently revised the Annex II regulations that restrict discharges of noxious liquid substances during cleaning or de-ballasting operations. The revisions are scheduled to take effect in January 2007. As interpreted by the IMO at meetings in April 2005, these revisions will not impose further restriction on the types of substances gas carriers may carry under their gas carrier code certificates of fitness, nor will they require changes in the manner in which product tanks must be cleaned.

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 affect 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 were adopted in July 1998. The ISM Code requires shipowners and bareboat 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 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 currently ISM Code certified.

OPA 90. The US 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 (or demise) 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 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. OPA 90 limits the liability of responsible parties to the greater of $1,200 per gross ton or $10 million per tanker that is over 3,000 gross tons (subject to possible adjustment for inflation). 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. 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.

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, 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. 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, it is understood that 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 US 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.

Environmental Regulation The Clean Water Act

The U.S. Clean Water Act, or 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. A decision by a U.S. federal court on March 30, 2005, could result in a requirement for vessels to obtain CWA permits for the discharge of ballast water in U.S. ports. Currently, under U.S. Environmental Protection Agency, or EPA, regulations, vessels are exempt from this permit requirement. However, a United States District Court has ruled that EPA exceeded its statutory authority in creating this exemption, which has been in place since 1978. A final order identifying specific relief has not yet been issued. Under the court s ruling, owners and operators of vessels visiting U.S. ports would be required to comply with the CWA permitting program or face penalties. Until the court issues its order, it is not clear whether the compliance requirements will be immediate, or whether the Court will mandate that EPA develop a permit program for marine vessels within a specific period of time. Although EPA will likely appeal this decision, if the exemption is repealed, we will incur certain costs to obtain CWA permits for our vessels. While we do not believe that the costs associated with obtaining such permits would be material, it is difficult to predict the overall impact of CWA permitting requirements on our operations.

European Union Initiatives. In response to the oil spill caused by the sinking of the oil tanker Erika in December 1999, the European Union has proposed legislation that would (1) ban manifestly sub-standard ships (defined as those over 15 years old that have been detained by port authorities more than twice in the previous six months) from European waters and create an obligation of port states to inspect ships posing a high risk to maritime safety and the marine environment; (2) provide the European Commission with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies; and (3) accelerate the phasing in of double-hull or equivalent design standards for single-hull oil tankers on the same schedule as that required under the IMO regulations on pollution prevention for tankers. 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. 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 Community law and to establish penalties for discharge of polluting substances from ships (irrespective of flag). The legislation contemplates that sanctions will be levied 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 by 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 is required to be enacted into national law of the Member States of the European Union by March 2007. A further package of proposed legislation, commonly referred to as the Erika III proposals, was presented by the European Commission in November 2005. Additionally, the sinking of the m.t. Prestige has led to the adoption of other environmental regulations by certain European Union nations. 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 Convention for the Establishment of an International Fund for Oil Pollution of 1971, as amended. 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. Approximately one-quarter of the countries that have ratified the CLC have increased the liability limit through a 1992 Protocol to the CLC which became effective in 1996. The liability limit in the countries that have ratified this 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 $6.5 million plus $912 for each additional gross ton over 5,000. For vessels of over 140,000 gross tons, liability is limited to approximately $129.7 million. As the convention calculates liability in terms of a basket of currencies, these figures are based on currency exchange rates on April 4, 2006. 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, or 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 imposing mandatory ballast water management practices for all vessels equipped with ballast water tanks entering U.S. waters. These 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 is developing a proposal to establish ballast water discharge standards, which could set maximum acceptable discharge limits for various invasive species, and/or lead to requirements for active treatment of ballast water.

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 (beginning in 2009), 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 thirty-five percent of the gross tonnage of the world s merchant shipping.

If the 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.

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;

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 $5.7 million in 2005. 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 2005-2006, our P&I club insurance premiums increased for several of our vessels by approximately 21%, but for others the increase was minimal. Our hull and machinery insurance premiums also increased in certain cases by 9%, but in others by less than 3%. We have been advised that for 2006-2007 our P&I club insurance premiums will increase by approximately another 15% and our hull and machinery insurance premiums by 10%. 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.

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 will in the future also compete with owners of LNG carriers.

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Although we do not actively trade 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 OMI Corporation, Overseas Shipholding Group Inc., Teekay Shipping Corporation, Top Tankers, Inc., 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 15, 2006, we operated a fleet of 28 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. The charter rates that we are able to 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 also have had a strong effect on tanker charter markets over the past 20 years.

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Results from Operations

The tanker market during 2004 had seen freight rates reach heights not seen for over three decades due to the rapid growth in China and India and the huge increase in oil demand as a consequence. The healthy growth seen by the U.S. and other nations also contributed significantly. It was almost inevitable that rates in 2005 should be lower as growth in China slowed down and consequently oil demand growth failed to keep pace with the increased supply of tanker tonnage. Nevertheless, oil demand remained buoyant and was not dampened even by significant hikes in the price of oil, brought about by the high demand, fears of production constraints, hurricanes in the United States and speculative hedging. Ultimately, 2005 has proved to be another exceptional year for tanker companies albeit not as high as 2004 in terms of rates. Some improvement in the strength of the dollar occurred, but rapidly increasing interest rates, higher bunker and lubricant prices and increasing insurance premiums have placed additional strain on expenses.

Our fleet achieved voyage revenues net of commissions amounting to $284.0 million, down by 6.9% from $305.2 million in 2004. Capital gains on the sale of five operating vessels and a hull under construction were $45.3 million. Operating income increased from $145.5 million in 2004 to $154.8 million in 2005, a 6.4% increase. Net income was $161.8 million, compared to $143.3 million in the prior year, a 12.9% increase. Diluted income per share increased from $7.51 in 2004, based on 19.08 million diluted weighted average shares outstanding, to $8.17 in 2005, based on 19.79 million diluted weighted average shares outstanding. These results reflect the decrease in market rates from the 2004 record levels to lower but historically high levels, which affected voyage revenues. Vessel running expenses were held to competitive levels reflecting the addition of new cost efficient vessels to the fleet replacing the older ones sold.

Some of the more significant developments for the Company during 2005 were:

The arrangement of new period charters with leading state-owned oil corporations. While the Company took advantage of the high rates being offered by the spot market, it also sought, in accordance with its overall chartering strategy, to ensure period employment of its vessels. The terms of such charters often included variable rates with minimum floors or profit sharing in order for the Company to participate in the upside of buoyant markets.

The delivery of two newly built 1C ice class suezmaxes *Eurochampion 2004* and *Euroniki* at $50.6 million each, and the product carriers *Didimon* and *Dionisos* at $27.5 million each.

The ordering of one aframax from Sumitomo for $58.7 million.

The delivery in June of the aframax *H 1224* from the Sanoyas yard of Japan, which was immediately sold, resulting in a capital gain of nearly $10.8 million.

The sale of the two single-hull aframaxes *Panos G* and *Tamyra* with capital gains of $7 million, the sale of the product carriers *Pella* and *Dion*, for $23.9 million with capital gains of $8.8 million.

The sale of the recently delivered product carrier *Dionisos* with a capital gain of $18.7 million.

The receipt of new loans of $130.2 million with leading U.S. banks relating to the deliveries of the four new vessels. Drawing on new refinancing facilities amounted to $200.5 million. Repayments on all loans amounted to $30.5 million, and prepayments from the sale of vessels and refinancing amounted to $231.8 million. Total debt at the year end amounted to $433.5 million.

The arrangement of three new interest rate swaps meeting hedging criteria. By December 31, 2005 the equivalent of approximately 78% of the outstanding loans had been covered by interest rate swap arrangements.

The performance of major special surveys relating to the panamaxes *Bregen, Victory III,* and *Hesnes*

The repurchase and cancellation of 1,016,790 common shares for $37.8 million during the year.

The payment to the Company s shareholders of two dividends during the year, $0.95 cents per common share in April in respect of the fiscal year 2004, and $1.00 per common share in November, the first dividend with respect to fiscal year 2005. Total cash paid out on dividends amounted to $38.5 million.

The continued adoption and implementation of new internal control procedures in response to the Sarbanes-Oxley Act of 2002.

The Company operated the following types of vessels during, and at the end of, the year ended December 31, 2005:

Vessel Type	**VLCC**	**Suezmax**	**Aframax**	**Panamax**	**Product carriers**	**Total Fleet**
Average number of vessels	1.9	4	10	7.4	4	27.3
Number of vessels at end of period	2	6	7	7	3	25
Dwt at end of period (in thousands)	600.9	986.5	739.6	478.2	119.8	2,925
Percentage of total fleet	20.5%	33.7%	25.3%	16.4%	4.1%	100%
Average age, in years, at end of period	9.7	2.4	6.6	8.2	12	6.3

We believe that the key factors which determined our financial performance in 2005, within the given freight rate environment in which the Company operated, were:

continuing to maintain a diversified fleet which allowed the Company 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 secure cash flow while allowing the Company to the advantage of the buoyant freight market;

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

the continued control over costs by our technical managers despite pressures caused by a weakening dollar and higher insurance, bunker fuel and lubricant costs;

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

our ability to reduce 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;

raising new finance either through the capital markets or through debt, and the sale of older vessels and newer vessels, including newbuildings when market conditions warrant.

We believe that the above factors will also be those that will be behind the future financial performance of the Company and which are evident as we proceed through 2006, to which may be added:

- a continuing buoyant market in comparison to historical levels;
- the securing of a high level of utilization for our vessels (as at March 15, 2006, 67% of the remaining operational days available for 2006, excluding expected new deliveries, have secured employment);
- delivery of the 16 newbuildings that will join the fleet over the next thirty months (five of which are to be delivered during the remainder of 2006);
- rapid development of new strategic areas with purpose-built vessels to access ice-bound ports or (from January 2007) carry LNG (liquefied natural gas), and
- repurchase of common shares at favorable prices.

Looking forward in general, given the lack of clarity over oil production from Iran, Nigeria and Iraq, and continued discussion by the Organization of Petroleum Exporting Countries (OPEC) about their production levels, high oil prices may continue through 2006. The expected increasing demand from China and India will continue factoring heavily into worldwide consumption. The dynamics at work in India, China, and the Pacific Rim bode well for transportation requirements for petroleum and its products in the coming months and years. Another indication of the strength of the market can be seen in continued demand despite price hikes. Historically, as oil prices have risen, some global consumers have been forced to curtail imports. However, in the current environment, it appears that price has not dissuaded imports and, in fact in some instances, demand has actually increased.

We expect that 2006 should once again prove to be a good year for the tanker industry. The aforementioned economic stimuli, coupled with geopolitical events in areas such as Nigeria, Iraq, Iran and Venezuela, should fuel the market. Additionally, new IMO and European Union regulations relating to the phase-out of single-hull tankers should have a significant impact on the rate environment.

Our current fleet consists of three VLCCs, eight Suezmaxes, seven Aframaxes, seven Panamaxes and three Handysize or Handymaxes. All vessels are owned by our subsidiaries with the exception of the Aframax *Olympia*, acquired in March 1999 and sold in October 1999 and time chartered back from the owners for an initial period of approximately eight years and the two Suezmaxes, *Cape Baker* and *Cape Balboa* (formerly *Decathlon* and *Pentathlon*), acquired in 2002 and sold in October and November 2003, respectively, and time chartered back from the owners for five years. Another seven vessels (six MR product carriers and one Handysize) have recently been acquired and will be delivered to the Company before the end of April.

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. Time charters can also be evergreen, which means that they automatically renew for successive terms unless the shipowner or the charterer elects 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. Five of our vessels also operate 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.

The chartering strategy of the Company 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 affects of the cyclical nature of the tanker industry, achieving almost optimal utilization of the fleet. In order to capitalize on possible upturns in rates, the Company has chartered out several of its vessels on a market basis. Including the two Suezmaxes delivered to date this year, we currently have 20 of our 28 vessels on time charter or other form of period employment, ensuring that at least 67% of 2006 availability and 51% of 2007 is already fixed. The vessels that continue on spot are taking advantage of the strong tanker demand that existed in the last half of 2005 and is expected to continue for much of this year.

The Board of Directors, through its Chartering Committee, formulates the chartering strategy of the Company and the Company s 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 re-delivery opportunities at advantageous rates.

The cooperation with the Tsakos Group enables the Company to take advantage of the long-established relationships built by the Tsakos Group with many of the world s major oil companies and refiners. The Tsakos Group has built these relationships over 35 years of existence and high quality commercial and technical service. Tsakos Shipping manages the vessels of the Company plus another 26 operating vessels, mostly container vessels and single hull tankers. Apart from the customer relations, the Company is 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 the Company s 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. The Company s 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, bare-boat and voyage charters, contracts of affreightment and pool arrangements. Time and bare-boat 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 $180 per lightweight ton. 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, given that all classification society rules have been adhered to concerning survey certification and statutory regulations are followed.

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. 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. At March 15, 2006, the Company owned and operated one single-hull tanker, and two product carriers with double sides and single bottoms. None of the vessels were deemed Category I vessels, which require phase out by 2005 under IMO regulations. All three vessels, provided they complete the newly imposed survey requirements, may continue trading to the end of their assumed economic lives of 25 years.

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.

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 2 $^{1}/2$ years. In most cases a dry-docking is necessary with repairs 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, plus 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.

Recent Accounting Pronouncements

In May 2005, the FASB issued Statement 154, Accounting Changes and Error Corrections , a replacement of APB Opinion No. 20 and SFAS 3. The Statement requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. APB Opinion No. 20, Accounting Changes, previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 also requires that a change in method of depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in accounting years beginning after December 31, 2005. The Company will adopt this pronouncement as of January 1, 2006.

Basis of Presentation and General Information

Voyage revenues. Revenues are generated from freight billings and time charters. Time and bare-boat 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. 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.

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 or 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. Currently, we hire three vessels (*Olympia*, *Cape Baker* and *Cape Balboa*), all of which have been hired as part of sale and leaseback transactions as described in the accompanying consolidated financial statements.

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 January 1, 2003 all vessels had a management fee of $15,000 per month until June 30, 2004. Beginning July 1, 2004, the amount increased to $18,000 monthly, except for chartered-in vessels, where the fee decreased to $12,500 per month.

Depreciation. We depreciate our vessels on a straight-line basis over their estimated useful lives, after considering their estimated scrap values, calculated at $180 per lightweight ton. In assessing the useful lives of vessels, we have estimated them to be 25 years, 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 drydocking and special surveys of each of our ships over the period up to the ship s next scheduled dry-docking (generally 2 ^{1}/2 years). These expenses 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 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 (the vessel s net book value plus any unamortized drydocking deferred 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. As of December 31, 2002, this review indicated an impairment loss of $10.8 million (none as of December 31, 2003, 2004 and 2005).

As at December 31, 2005, the market value of our fleet (excluding the three chartered-in vessels) was approximately $1.2 billion , according to valuations received from two independent reputable brokers. On the basis of these valuations and given the positive market conditions prevailing during the first quarter of 2006, we determined that no impairment of the carrying value of any vessel, including older vessels, was required.

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

Financial Analysis

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

Year ended December 31, 2005 versus year ended December 31, 2004

Voyage revenue

Revenue from vessels was $295.6 million during the year ended December 31, 2005 as compared to $318.3 million during the year ended December 31, 2004, a 7.1% decrease primarily resulting from a decrease in the number of vessels from an average of 27.3 in 2004 to an average of 26.1 in 2005, and partly from a fall in charter rates. The average time charter equivalent rate per vessel for the year 2005 was $28,645 per day compared to $28,722 for the previous year. In addition, the fleet had 96.5% employment compared to 97.6% in the previous year, due to extra days in dry-docking (three vessels in 2005 compared to one in 2004).

Commissions

Commissions were $11.6 million, or 3.9% of revenue from vessels, during the year ended December 31, 2005, compared to $13.1 million, which was 4.1% of revenue from vessels, for the year ended December 31, 2004. The savings in commission was primarily due to changes in charters with lower broker s commission rates.

Voyage expenses

Voyage expenses include all our costs, other than operating expenses and commission that are related to a voyage, including port charges, agents fees, canal dues and bunker or fuel costs. Voyage expenses were $36.0 million during the year ended December 31, 2005 compared to $42.1 million during the prior year, a 14.6% decrease. This is mainly explained by the fall in total operating days on spot charter and contract of affreightment (under which contracts the owner bears voyage expenses), primarily due to the time-chartering of vessels previously on spot charter to time-charter or to pool employment. However, the overall decrease in voyage costs was offset by further increases of up to 30% in bunker costs during 2005 as a consequence of higher oil prices.

Charter hire expense

Charter hire expense remained steady at $24.3 million for both 2005 and 2004, with the same three vessels chartered-in throughout the entire year, *Olympia, Cape Baker* and *Cape Balboa.*

Vessel operating expenses

Vessel operating expenses include crew costs, maintenance repairs and spares, stores, lubricants, insurance and sundry expenses such as tonnage tax, registration fees, and communication costs. Total operating costs were $52.9 million during the year ended December 31, 2005 as compared to $53.9 million during year ended December 31, 2004, a slight decrease of 1.8%. This is partly due to a decrease in operating days over the previous year of those vessels bearing operating expenses (i.e. all vessels except chartered-in and bare-boat chartered out) by approximately 457 days or 5%

Operating expenses per ship per day for the fleet increased from $6,286 for the year ended December 31, 2004 to $6,534 for the year ended December 31, 2005, a 3.9% increase. Increased insurance costs and cost of lubricants contributed to increase running costs, but generally the increase was mitigated by the sale of older vessels and the continued introduction of new more cost efficient vessels.

Depreciation

Depreciation was $35.7 million during the year ended December 31, 2005 compared to $35.4 million during the year ended December 31, 2004, an increase of 0.9%. Depreciation expense remained almost steady due to the sale of vessels *Pella, Dion and Tamyra* in 2005 and *Toula Z* in late 2004. This was offset by the addition of vessels *Didimon, Euroniki, Eurochampion 2004* in 2005 and *Dionisos* which was acquired and sold in the same year. The sale of *Panos G* did not affect depreciation as it was fully depreciated in 2002.

Amortization

We amortize the cost of dry-docking and special surveys over the period to the next scheduled dry-docking and this amortization is included as part of the normal costs we incur in connection with the operation of our vessels. During the year ended December 31, 2005, amortization of deferred dry-docking charges was $6.6 million as compared to $8.8 million during the year ended December 31, 2004, a decrease of 24.8%. The decrease is due in part to the reduced level of dry-docking repairs undertaken in 2004 and the early part of 2005 compared to previous years and partly due also to the sale of vessels which included substantial amounts of deferred charges in their carrying value.

Management fees

Management fees are the fixed fees per vessel the Company pays to Tsakos Energy Management Ltd. under a management agreement between the companies. From January 1, 2002 to June 30, 2004 each vessel bore a management fee of $15,000 per month, payable by the Company to Tsakos Energy Management Ltd. This was increased to $18,000 per month as from July 1, 2004 for owned vessels and reduced to $12,500 for the three chartered-in vessels. Management fees totaled $5.5 million during the year ended December 31, 2005, compared to $5.3 million for the year ended December 31, 2004, an increase of 2.5%.

General and administrative expenses

General and administrative expenses consist primarily of professional fees, office supplies, advertising costs, directors liability insurance, and reimbursement of our directors and officers travel-related expenses. General and administrative expenses were $3.6 million during the year ended December 31, 2005 compared to $3.1 million during the year ended December 31, 2004.

The sum of general and administrative expenses plus management fees payable to Tsakos Energy Management represents the overheads of the Company. On a per vessel basis, daily overhead costs increased from $844 in 2004 to $954 in 2005, due to the factors mentioned above. The addition of the new management incentive award in 2004 and 2005, as described below, increased the daily overhead per vessel from $1,094 for 2004, to $1,217 for the year ended December 31, 2005.

Management incentive award

In accordance with a revised management agreement between the Company and its managers, dated September 28, 2004, and with the Board of Director s decision of February 28, 2006, $2.5 million is due as an award to Tsakos Energy Management in achieving for the Company a return on equity for 2005 in excess of 25%. A similar award was made in 2004.

Amortization of the deferred gain on the sale of vessels

The Company sold two Suezmaxes in a sale and leaseback transaction in the fourth quarter of 2003. The total gain of $15.8 million has been deferred and is being amortized over the five year minimum charter period. For both years 2004 and 2005 the annual amortization amounted to $3.2 million.

Gain on the sale of vessels

The Company sold five operating vessels during 2005, the newly delivered double hull product carrier *Dionisos,* resulting in a capital gain of $18.7 million, the two single hull/double bottom product carriers *Dion* and *Pella*, resulting in capital gains of $4.3 and $4.5 million respectively, the two single hull aframaxes *Panos G* and *Tamyra*, resulting in capital gains of $5.2 and $1.8 million, respectively. Total capital gains achieved and accounted for in full within 2005 amounted, therefore, to $34.5 million. In 2004, two operating vessels were sold for a combined capital gain of $13.6 million.

Operating income

Income from vessel operations was $154.8 million during the year ended December 31, 2005 versus $145.5 million during the year ended December 31, 2004, representing a 6.4% increase.

Gain on the sale of non-operating vessels

During 2005, the Company sold the newbuilding aframax hull *H/1224* for $71.3 million resulting in a capital gain of $10.8 million. During 2004 the Company sold the newly constructed vessel *Delos* for $35.7 million resulting in a capital gain of $7.8 million.

Net interest and finance costs

Net interest and finance costs increased from $10.1 million during the year ended December 31, 2004 to $11.2 million during the year ended December 31, 2005, an 11.0% increase. Loan interest costs increased from $15.6 million in 2004 to $19.1 million in 2005. This was mostly due to the increase of the average interest rates borne on the Company s loans from 3.4% during 2004 to 4.4% during 2005. The total average bank loans fell from $436 million for 2004 to approximately $416 million for 2005.

There were net positive movements totaling $3.2 million relating to the fair value (mark-to-market) of the non-hedging interest rate swaps in 2005, including reclassification adjustment from other comprehensive income, compared to $2.5 million in 2004.

Capitalized interest in 2005 was $5.3 million compared to $2.7 million in the previous year, the increase being due to further installments paid for vessels on order and higher average interest rates. Amortization of loan expenses was $1.0 million compared to $0.4 million primarily due to write-offs of loan expenses on the refinancing of older loans and facilities. Other loan charges also increased to $1.4 million in 2005 from $0.2 million in 2004 mainly due to extra commitment fees.

Interest income

Total income derived from bank deposits and investments, including the net positive changes in the market values of the investments, were $7.4 million during 2005 as compared to $0.8 million during the year ended December 31, 2004, due to higher average bank deposits and higher deposit interest rates, and unrealized gains of $2.1 million from our increased investments in 2005.

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Net income

As a result of the foregoing, net income for the year ended December 31, 2005 was $161.8 million, or $8.18 per share, basic, versus $7.53 per share, basic, during the year ended December 31, 2004, an increase of 8.6%.

Year ended December 31, 2004 versus year ended December 31, 2003

Voyage revenue

Voyage revenue from vessels was $318.3 million during the year ended December 31, 2004 as compared to $241.4 million during the year ended December 31, 2003, a 31.9% increase partly resulting from an increase in the number of vessels from an average of 25.7 in 2003 to an average of 27.3 in 2004, but mostly from the very substantial improvement in charter rates. The average time charter equivalent rate per vessel for the year 2004 was $28,722 per day compared to $22,633 for the previous year. In mid-January 2004, a VLCC, *La Madrina*, was acquired and traded throughout the year on the spot market earning an average rate of $78,011. The vessel contributed $31.3 million to revenue during 2004. During the course of 2003, four new Panamax tankers and two Aframaxes were delivered. The additional contribution in 2004 over 2003 to revenue of these six vessels, each operating a full year in 2004, was $33.3 million. The fleet had 97.6% employment compared to 92.9% in the previous year, mainly because of the light dry-docking activity in 2004, (two vessels only compared to nine vessels in 2003).

Commissions

Commissions were $13.1 million, or 4.1% of revenue from vessels, during the year ended December 31, 2004, compared to $11.3 million, which was 4.7% of revenue from vessels, for the year ended December 31, 2003. The savings in commission being primarily due to changes in three charters where brokers commission is less, and due to the addition of the *La Madrina*, acquired in January 2004 and contributing 10% of total revenue at a lower than average commission.

Voyage expenses

Voyage expenses include all our costs, other than operating expenses and commission that are related to a voyage, including port charges, agents fees, canal dues and bunker or fuel costs. Voyage expenses were $42.1 million during the year ended December 31, 2004 compared to $48.2 million during the prior year, a 12.6% decrease. This is mainly explained by the fall in total operating days on spot charter and contract of affreightment (under which contracts the owner bears voyage expenses) from 4,372 days in 2003 to 3,287 in 2004, a 24.8% decrease, primarily due to the time-charter of three Suezmaxes which were mostly on spot charter in 2003. However, the overall decrease in voyage costs was offset by further rises in bunker costs during 2004 as a consequence of higher oil prices.

Charter hire expense

Charter hire expense was $24.3 million in 2004 and $13.1 million in 2003, an 85.2% increase. During 2004, three vessels were chartered-in throughout the entire year, *Olympia, Cape Baker* and *Cape Balboa.* In 2003, we hired the *Olympia* for all of the year and another vessel for approximately nine months before it was released. The *Cape Baker* and *Cape Balboa* were sold and chartered back in the last quarter of 2003.

Vessel operating expenses

Vessel operating expenses include crew costs, maintenance repairs and spares, stores, lubricants, insurance and sundry expenses such as tonnage tax, registration fees, and communication costs. Total operating costs were $53.9 million during the year ended December 31, 2004 as compared to $49.9 million during year ended December 31, 2003, an increase of 7.9%. This is partly due to an increase in operating days over the previous year of vessels bearing operating expenses (i.e. all vessels except chartered-in and bare-boat chartered out).

Operating expenses per ship per day for the fleet increased from $5,946 for the year ended December 31, 2003 to $6,286 for the year ended December 31, 2004, a 5.7% increase. For the most part, this increase is due to the approximately 13% fall in value of the dollar against the Euro over the year. Approximately a quarter of the Company s operating expenses are in Euro, mainly in respect to Greek officers on the vessels. Increased insurance costs and extra repairs and spares, and increased cost of lubricants also contributed to increased running costs.

Depreciation

Depreciation was $35.4 million during the year ended December 31, 2004 compared to $32.9 million during the year ended December 31, 2003, an increase of 7.6%, due primarily to the addition in early 2004 of one VLCC at a cost of $51.7 million and the sale of one old Panamax in mid-year. The sale of the Aframax *Toula Z* towards the end of the year had marginal impact.

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 the year ended December 31, 2004, amortization of deferred dry-docking charges was $8.8 million as compared to $7.8 million during the year ended December 31, 2003, an increase of 11.7%. A significant amount of dry-docking and special survey work had been undertaken during 2002 and 2003, which resulted in higher amortization.

Management fees

Management fees are the fixed fees per vessel the Company pays to Tsakos Energy Management Ltd. under a management agreement between the companies. From January 1, 2002 to June 30, 2004 each vessel bore a management fee of $15,000 per month, payable by the Company to Tsakos Energy Management Ltd. This was increased to $18,000 per month as from July 1, 2004 for owned vessels and reduced to $12,500 for the three chartered-in vessels. Management fees totaled $5.3 million during the year ended December 31, 2004, compared to $4.5 million for the year ended December 31, 2003, an increase of 19.2%, in line with the increase in available days provided by the newly acquired vessels to the fleet and the increases in fee described above.

General and administrative expenses

General and administrative expenses consist primarily of professional fees, office supplies, advertising costs, directors liability insurance, and reimbursement of our directors and officers travel-related expenses. General and administrative expenses were $3.1 million during the year ended December 31, 2004 compared to $2.4 million during the year ended December 31, 2003, an increase of 28.3% primarily due to additional expenditures relating to investor and public relations, travel, SEC filing fees, legal and audit fees.

The sum of general and administrative expenses plus management fees payable to Tsakos Energy Management represents the overheads of the Company. On a per vessel basis, daily overhead costs increased from $734 in 2003 to $843 in 2004, due to the factors mentioned above. The addition of the new management incentive award in 2004, as described below, increases the daily overhead per vessel to $1,094 for the year ended December 31, 2004.

Management incentive award

In accordance with a revised management agreement between the Company and its managers, dated September 28, 2004, and with the Board of Director s decision of February 24, 2005, $2.5 million is due as an award to Tsakos Energy Management in achieving for the Company a return on equity for 2004 in excess of 25%.

Amortization of the deferred gain on the sale of vessels

The Company sold two Suezmaxes in a sale and leaseback transaction in the fourth quarter of 2003. The total gain of $15.8 million has been deferred and is being amortized over the five year minimum charter period. The initial part of this amortization amounted to $0.5 million in 2003. During 2004 the annual amortization amounted to $3.2 million.

Gain on the sale of vessels

The Company sold two operating vessels during 2004, the 1981 single-hull Panamax *Liberty*, for $4.8 million resulting in a capital gain of $0.9 million and the Aframax *Toula* Z for $45.7 million, resulting in a capital gain of $12.7 million. Total capital gains achieved and accounted for in full within 2004 amounted, therefore, to $13.6 million.

Operating income

Income from vessel operations was $145.5 million during the year ended December 31, 2004 versus $70.7 million during the year ended December 31, 2003, representing a 105.8% increase.

Gain on the sale of non-operating vessels

The Company sold one newly constructed vessel on delivery during 2004, the *Delos* for $35.7 million resulting in a capital gain of $7.8 million.

Net interest and finance costs

Net interest and finance costs decreased from $12.4 million during the year ended December 31, 2003 to $10.1 million during the year ended December 31, 2004, an 18.1% decrease. Actual loan interest costs decreased from $16.6 million in 2003 to $15.6 million in 2004, a 6.1% decrease. This was partly because total average bank loans fell to approximately $436 million for 2004 compared to $473 million for 2003, a decrease of 7.8%. The average interest rate for 2004 borne on the Company s loans (taking into account interest payable on interest rate swaps) was approximately 3.5% compared to 3.2% for 2003.

There was a positive movement of $3.7 million in the fair value (mark-to-market) of the remaining two non-hedging interest rate swaps in 2004, which is accounted for through the income statement and is included as part of interest costs. These two swaps reached the end of their respective periods in July 2004. However, a swap which had been designated as a cash flow hedge at the beginning of the year, was de-designated on the repayment of the related loan and the total negative change in fair value accumulated to the loan repayment date, plus further negative valuations to the end of the year, totaling together $1.2 million, were also accounted for as part of interest costs, bringing the total positive movement in the fair value of financial instruments, including reclassification adjustments from other comprehensive income, to $2.5 million compared to a positive movement of $3.5 million in 2003.

Capitalized interest in 2004 was $2.7 million compared to $0.8 million in the previous year, the increase being due to further vessels being ordered and the total amount of installments being paid amounting to $113.6 million in 2004 compared to $32.3 million in 2003.

Interest income

Interest income was $0.8 million during 2004 as compared to $0.4 million during the year ended December 31, 2003, due to slightly higher deposit interest rates in 2004 compared to 2003, and higher average bank deposits.

Joint venture income

During the year ended December 31, 2003, the share of net income due to the Company from the joint venture, LauriTen Ltd., was $0.6 million. The joint-venture ended on August 31, 2003.

Net income

As a result of the foregoing, net income for the year ended December 31, 2004 was $143.3 million, or $7.53 per share, basic, versus $3.45 per share, basic, during the year ended December 31, 2003, an increase of 118%.

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 continuing 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 that, unless there is a major and sustained downturn in market conditions, our financial resources are sufficient to meet our liquidity needs through January 1, 2008, taking into account both our existing capital commitments and the minimum debt service requirements as defined by our bank loan covenants.

Working capital (non-restricted net current assets) amounted to approximately $99.9 million at December 31, 2005 compared to approximately $73.3 million as at December 31, 2004. Current assets increased from $156.3 million at December 31, 2004 to $191.7 million at December 31, 2005 primarily due to the increased cash balances (including restricted cash) rising from $118.4 million as at December 31, 2004 to $146.0 million as at December 31, 2005 and due to increased investments. Current liabilities increased from $81.5 million at December 31, 2004 to $91.5 million at December 31, 2005 due mainly to increases in the current portion of the long term debt and accrued liabilities. These increases were offset partially by decreases in accounts payable.

Net cash provided by operating activities was $146.9 million in the year ended December 31, 2005 compared to $153.6 million in the previous year, a 4.4% decrease. The decrease is mainly due to modest fall in revenue and higher dry-docking expenses.

Expenditure on dry-dockings is deducted from net income to calculate cash generated by operating activities. Total expenditure during 2005 on dry-dockings amounted to $9.3 million compared to $3.6 million in 2004. In the previous year there was only one complete dry-docking, relating to the Aframax *Tamyra.* In 2005, dry-dockings relating to special surveys were preformed on the three sister Panamaxes, *Bregen, Hesnes* and *Victory III.*

Net cash used in investing activities was $109.0 million for the year 2005, compared to $92.7 million for the year 2004. As in 2004, almost all the use of cash in 2005, amounting to $246.1 million, relates to the ongoing new-building program, although 2004 included the acquisition of the VLCC *La Madrina*. During 2005, an amount of $173.8 million was paid for five vessels delivered in the year, the Suezmaxes *Eurochampion 2004* and *Euronike*, the product carriers *Didimon* and *Dionisos* and the Aframax Hull Number *H-1224* (which was immediately sold on delivery). Also, $1.6 million was expended on upgrading the *Victory III* (ballast tank coatings) while in dry-docking. A further $70.7 million was expended as advances (contract installments, construction supervisory fees and interest capitalized) for vessels under construction, specifically four Suezmaxes (of which two were delivered in January and February 2006), two Aframaxes (expected delivery May and August 2007), four Handysize product carriers ordered from Hyundai MIPO (expected delivery June 2006, October 2006, March 2007, May 2007) and one LNG carrier (expected delivery January 2007).

Within 2005 the Company entered into one contract to construct an Aframax, bringing the total number of vessels on order as at December 31, 2005 to eleven (see below section on fleet development). Including the *Archangel* (contract price of $52.1 million and delivered in January 2006), and the *Alaska* (contract price of $52.1 million and delivered in February 2006), the anticipated payment schedule on these vessels, which is subject to change if there are delays or advanced work, is as follows (amounts in $ million):

	Prior				
	to 2005	**2005**	**2006**	**2007**	**Total**
Quarter 1		4.7	78.9	173.1	
Quarter 2		29.2	47.1	88.6	
Quarter 3		6.0	17.5	41.0	
Quarter 4		23.2	32.7	0	
Total Year	**76.3**	**63.1**	**176.2**	**302.7**	**618.3**

In 2005, the Company sold the 1981 built Aframax *Panos G* for $9.8 million, the 1985 built Handymax tanker *Pella* for $12.4 million, the 1984 built Handymax tanker *Dion* for $11.5 million, the 1983 built Aframax *Tamyra* for $10.4 million and the 2005 built product carrier *Dionisos* for $48.0 million. The Company sold, on delivery, the newly constructed aframax tanker *H-1224* for $71.2 million. In 2004, net sale proceeds from the sale of the product carrier *Delos*, the Panamax *Liberty* and the Aframax *Toula Z* amounted to $83.6 million in total. Net proceeds from sale of vessels amounted to $157.2 million in 2005.

In addition to the $5.0 million placed by the Company in 2004 in each of two separate structured notes, the Company in 2005 placed another $5 million in a further three-year capital guaranteed structured note and $10 million in a short-term commodity linked structured note. In addition, the Company purchased, for $5 million, convertible bonds in a publicly quoted company. In 2005, one of the structured notes acquired in 2004 was sold at a gain. In 2006, we sold at a gain the commodity linked note and one of the capital guaranteed structured notes.

Net cash used in financing activities was $9.1 million in 2005 compared to $30.8 million net cash in 2004. Proceeds from new bank loans in 2005 amounted to $330.7 million compared to $40.0 million in the previous year. Prepayments of debt amounted to $231.8 million and scheduled repayments to $30.5 million in 2005 compared to total loan repayments of $127.5 million in 2004. In May 2004, an equity offering of 2,875,000 common shares on the New York Stock Exchange raised a net $80.1 million after all related costs and expenses. There was no equity offering in 2005.

During 2005, three share buy-back programs were announced with an authorized amount of $68.5 million in total. During 2005, the Company purchased 1,016,790 shares in the open market in a buy-back program at a cost of approximately $37.8 million. The transactions were open market-based through the New York Stock Exchange with a maximum price set by the Board of Directors. The shares were immediately deemed cancelled on purchase in accordance with the Company s bye-laws and Bermudan legislation. A further 108,500 shares have been bought to date in 2006 at a cost of $3.9 million. No shares were repurchased within 2004. During 2005, the staff of the Tsakos Group exercised 18,449 share options providing $0.2 million in exercise proceeds compared to 2004 in which year, 18,000 share options at $10 each and another 130,913 options at $12 each which, in total, provided $1.8 million in exercise proceeds.

A cash dividend of $0.95 per common share was paid in April 2005 representing the final dividend for the fiscal year 2004 and a $1.00 per common share dividend was paid in November 2005 as the first dividend for the fiscal year 2005. In total, the cost of two dividends amounted to $38.5 million compared to $22.7 million paid in dividends in 2004. A further dividend for the fiscal year 2005 has been declared of $1.10 per common share, to be paid on April 27, 2006. 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 estimated 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 is subject to the discretion of our board of directors and depends, among other things, on available cash balances, anticipated cash needs, our results of operations, our financial condition, any loan agreement restrictions binding us or our subsidiaries, as well as other relevant factors.

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Investment In Fleet and Related Expenses

We operate in a capital-intensive industry requiring extensive investment in revenue-producing assets. We raise the funds for 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 the Company usually pays from its 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.

As of December 31, 2005, we were committed to eleven newbuilding orders totaling approximately $618.3 million, of which $139.4 million had been paid by December 31, 2005. During the first quarter of 2006, the Company has made further very substantial investments in vessels. It has acquired a VLCC and a product carrier, plus the contracts for two 1B ice-class product carriers from the Tsakos Group at a total price of $219 million (of which $52.7 million will be payable to the construction yard where the two contracts are placed). The VLCC, *La Prudencia*, was delivered to the Company in January 2006 at a cost of $86.0 million. The two contracts were also paid for in January at a cost of $35.2 million for the product carriers to be delivered in May and August 2007. The product carrier *Delphi* will be handed over to the Company during May at a total cost of $45.1 million.

In March the Company announced the acquisition of six 2005 built 1A ice-class MR product carriers to be delivered at the end of April 2006 and newbuilding contracts for three 1A ice-class LR product carriers to be delivered in May, August and October 2006, respectively. The total price is $530.0 million of which $44.3 million has been paid as a deposit. In addition, the Company has signed contracts for the construction of two more DNA design Aframaxes from Sumitomo of Japan at a price of $58.9 million each for delivery in 2008.

Taking into account that two of the eleven newbuildings in progress at December 31, 2005 have now been delivered, the new contracts purchased or signed since then brings the total number of newbuildings in progress to sixteen with a total price of $937.5 million, of which $188.6 million has been paid to date.

Debt

As is customary in our industry, we anticipate financing the majority of our commitments on the newbuildings with bank debt. Usually we raise at least 70% of the vessel purchase price with bank debt. As of December 31, 2005, we had available unused loan amounts totaling $827.2 million, which is intended for the refinancing of existing debt and to finance the delivery installments of vessels under construction due in 2006 to 2008. Furthermore, as of March 15, 2006, we were in the process of finalizing financing arrangements relating to our recently announced additional vessel acquisitions.

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