

ULTRAPETROL BAHAMAS LTD  
Form 20-F  
March 17, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to

Commission file number 333-08878

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report: N/A

ULTRAPETROL (BAHAMAS) LIMITED

(Exact name of Registrant as specified in its charter)

COMMONWEALTH OF THE BAHAMAS

(Jurisdiction of incorporation or organization)

Ultrapetrol (Bahamas) Limited  
H & J Corporate Services Ltd.  
Ocean Centre, Montagu Foreshore  
East Bay St.  
Nassau, Bahamas  
P.O. Box SS-19084  
(Address of principal executive offices)

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Foreshore, East Bay St.,  
P.O. Box SS-19084, Nassau, Bahamas.

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act: Common Shares, \$0.01 par value

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: 9% First Preferred Ship  
Mortgage Notes due 2014

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of  
the period covered by the annual report.

Common Shares, \$0.01 par value 29,519,936 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.

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Yes  No

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

U.S.  
GAAP

International Financial Reporting Standards as  
issued by the International Accounting Standards Board

Other

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Our disclosure and analysis in this report concerning our operations, cash flows and financial position, including, in particular, the likelihood of our success in developing and expanding our business, include forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” “projects,” “forecasts,” “will,” “may,” and similar expressions are forward-looking statements. Although these statements are based upon assumptions we believe to be reasonable based upon available information, including projections of revenues, operating margins, earnings, cash flow, working capital, and capital expenditures, they are subject to risks and uncertainties that are described more fully in this report in the section titled “Risk Factors” in Item 3.D of this report. These forward-looking statements represent our estimates and assumptions only as of the date of this report and are not intended to give any assurance as to future results. As a result, you should not place undue reliance on any forward-looking statements. We assume no obligation to update any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors, except as required by applicable securities laws. Factors that might cause future results to differ include, but are not limited to, the following:

future operating or financial results;

pending or recent acquisitions, business strategy and expected capital spending or operating expenses, including drydocking and insurance costs;

general market conditions and trends, including charter rates, vessel values, and factors affecting vessel supply and demand;

our ability to obtain additional financing;

our financial condition and liquidity, including our ability to obtain financing in the future to fund capital expenditures, acquisitions and other general corporate activities;

our expectations about the availability of vessels to purchase, the time that it may take to construct new vessels, or vessels’ useful lives;

our dependence upon the abilities and efforts of our management team;

changes in governmental rules and regulations or actions taken by regulatory authorities;

adverse weather conditions that can affect production of some of the goods we transport and navigability of the river system on which we transport them;

the highly competitive nature of the ocean-going transportation industry;

the loss of one or more key customers;

fluctuations in foreign exchange rates;



failure to pay resulting in default by one or more of our counterparts in Future Freight Agreements (“FFAs”), fuel swaps, or other derivatives;

adverse movements in commodity prices or demand for commodities may cause our customers to scale back their contract needs;

potential liability from future litigation; and

other factors discussed in the section titled “Risk Factors” in Item 3.D of this report.

## PART I

## ITEM 1 – IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not Applicable.

## ITEM 2 – OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

## ITEM 3 – KEY INFORMATION

## A. SELECTED FINANCIAL DATA

The following summary financial information set forth below for Ultrapetrol (Bahamas) Limited (the “Company”) is for the years ended December 31, 2004, 2005, 2006, 2007 and 2008 and has been derived from the Company’s Financial Statements. Operations of our Passenger Business are presented as discontinued operations on a net of tax basis.

	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(Dollars in thousands)				
Statement of Income Data:					
Revenues	\$ 95,160	\$ 110,952	\$ 144,615	\$ 193,807	\$ 303,575
Operating expenses(1)	(40,815)	(63,735)	(78,236)	(104,507)	(164,476)
Depreciation and amortization	(18,688)	(20,229)	(24,714)	(30,268)	(38,620)
Administrative and commercial expenses	(9,007)	(8,852)	(14,416)	(20,355)	(24,396)
Other operating income (expenses)	784	22,021	(198)	10,944	6,513
Operating profit	27,434	40,157	27,051	49,621	82,596
Financial expense and other financial expenses(2)	(16,134)	(17,494)	(18,921)	(20,440)	(30,542)
Financial loss on extinguishment of debt	(5,078)	--	(1,411)	--	--
Financial income	119	1,152	733	2,916	1,156
Gain (losses) on derivatives, net	--	--	--	(17,801)	8,816
Investment in affiliates	406	(497)	588	(28)	(442)
Other, net	174	384	859	(339)	(558)
Income from continuing operations before income tax and minority interest	6,921	23,702	8,899	13,929	61,026
Income taxes	(642)	(786)	(2,101)	(4,832)	4,173
Minority interest	(1,140)	(9,797)	(1,919)	(739)	(1,228)
Income from continuing operations	\$ 5,139	\$ 13,119	\$ 4,879	\$ 8,358	\$ 63,971
Income (loss) from discontinued operations(3)	--	\$ 1,449	\$ 5,647	\$ (3,917)	\$ (16,448)

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Net Income	\$	5,139	\$	14,568	\$	10,526	\$	4,441	\$	47,523
Basic income (loss) per share										
From continuing operations	\$	0.33	\$	0.85	\$	0.27	\$	0.26	\$	1.99
From discontinued operations		--	\$	0.09	\$	0.32	\$	(0.12)	\$	(0.51)
	\$	0.33	\$	0.94	\$	0.59	\$	0.14	\$	1.48
Diluted income (loss) per share										
From continuing operations	\$	0.33	\$	0.85	\$	0.27	\$	0.26	\$	1.99
From discontinued operations		--	\$	0.09	\$	0.31	\$	(0.12)	\$	(0.51)
	\$	0.33	\$	0.94	\$	0.58	\$	0.14	\$	1.48
Basic weighted average number of shares		15,500,000		15,500,000		17,965,753		31,596,346		32,114,199
Diluted weighted average number of shares		15,500,000		15,500,000		18,079,091		31,923,350		32,213,741
Balance Sheet Data (end of period):										
Cash and cash equivalents	\$	11,602	\$	7,914	\$	20,648	\$	64,262	\$	105,859
Restricted cash		2,975		3,638		--		--		2,478
Working capital(4)		13,441		26,723		31,999		64,768		135,746
Vessels and equipment, net		160,535		154,769		299,600		452,544		552,683
Total assets		273,648		278,282		426,379		622,160		825,059
Total debt(5)		220,413		211,275		220,685		334,514		415,507
Shareholders' equity		28,910		43,474		179,429		253,142		371,889

## Statement of Cash Flow Data (end of period):

Total cash flows from operating activities	23,129	16,671	28,801	41,900	71,257
Total cash flows used in investing activities	(57,556)	(26,725)	(104,029)	(200,648)	(87,991)
Total cash flows from financing activities	37,781	6,366	87,962	202,362	58,331
Consolidated EBITDA(6)	\$ 45,681	\$ 55,828	\$ 62,417	\$ 64,968	\$ 116,859

(1) Operating expenses are voyage expenses and running costs. Voyage expenses, which are incurred when a vessel is operating under a contract of affreightment (as well as any time when they are not operating under time or bareboat charter), comprise all costs relating to a given voyage, including port charges, canal dues and fuel (bunkers) costs, are paid by the vessel owner and are recorded as voyage expenses. Voyage expenses also include charter hire payments made by us to owners of vessels that we have chartered in. Running costs, or vessel operating expenses, include the cost of all vessel management, crewing, repairs and maintenance, spares and stores, insurance premiums and lubricants and certain drydocking costs.

(2) Includes a \$5.4 million loss in 2008 due to fluctuations in foreign currencies against the U.S. dollar.

(3) Net of income tax effect.

(4) Current assets less current liabilities.

(5) Includes accrued interests.

(6) The following table reconciles our EBITDA to our cash flows from operating activities:

	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(Dollars in thousands)				
Net cash provided by operating activities from continuing operations	\$ 23,129	\$ 16,112	\$ 22,030	\$ 40,451	\$ 79,902
Net cash (used in) provided by operating activities from discontinued operations	--	559	6,771	1,449	(8,645)
Total cash flows from operating activities	23,129	16,671	28,801	41,900	71,257
Plus					
Adjustments from continuing operations					
Increase / Decrease in operating assets and liabilities	(3,747)	(1,973)	7,162	6,354	15,415
Expenditure for dry docking	11,139	8,427	4,678	2,724	3,105
Income taxes	642	786	2,101	4,832	(4,173)
Financial expenses	16,134	17,494	18,921	20,440	25,128
Net gain (losses) on derivatives, net	--	--	--	(17,801)	8,816
Gain on disposal of assets	41	21,867	630	10,282	--
Premium paid on redemption of preferred shares	--	--	914	--	--
Other adjustments	(1,657)	(11,085)	(3,496)	(3,384)	(4,647)

Adjustments from discontinued operations					
Increase / Decrease in operating assets and liabilities	--	1,994	2,344	(2,114)	1,457
Expenditure for dry docking	--	--	158	2,124	289
Income taxes	--	--	100	54	--
Financial expenses	--	1,647	104	(262)	212
(Gain) on disposal of assets	--	--	--	(181)	--
Other adjustments	--	--	--	--	--
EBITDA from continuing operations	\$ 45,681	\$ 51,628	\$ 52,940	\$ 63,898	\$ 123,546
EBITDA from discontinued operations	--	\$ 4,200	\$ 9,477	\$ 1,070	\$ (6,687)
Consolidated EBITDA	\$ 45,681	\$ 55,828	\$ 62,417	\$ 64,968	\$ 116,859

EBITDA consists of net income (loss) prior to deductions for interest expense and other financial gains and losses related to the financing of the Company, income taxes, depreciation of vessels and equipment and amortization of drydock expense, intangible assets, financial gain (loss) on extinguishment of debt and a premium paid for redemption of preferred shares. We have provided EBITDA in

this report because we use it to, and believe it provides useful information to investors to evaluate our ability to incur and service indebtedness and it is a required disclosure to comply with a covenant contained in the Indenture governing the Company's 9% First Preferred Ship Mortgage Notes due 2014. We do not intend for EBITDA to represent cash flows from operations, as defined by GAAP (on the date of calculation) and it should not be considered as an alternative to measure our liquidity. This definition of EBITDA may not be comparable to similarly titled measures disclosed by other companies. Generally, funds represented by EBITDA are available for management's discretionary use. EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported. These limitations include the following:

- EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments,
  - EBITDA does not reflect changes in, or cash requirements for, our working capital needs,
  - EBITDA does not include income taxes, which are a necessary and ongoing cost of our operations,
- EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts,
- EBITDA does not reflect the amortization of dry docking, or the cash requirements necessary to fund the required dry docks of our vessels,
- Although depreciation is a non-cash charge, the assets being depreciated will often have to be replaced in the future, and EBITDA does not, therefore, reflect any cash requirements for such replacements; and
  - EBITDA can be affected by the lease rather than purchase of fixed assets.

#### B. CAPITALIZATION AND INDEBTEDNESS

Not Applicable.

#### C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not Applicable.

#### D. RISK FACTORS

Please note: In this section, "we", "us" and "our" all refer to the Company and its subsidiaries.

##### Risks Relating to Our Industry

The oceangoing cargo transportation industry is cyclical and volatile, and this may lead to volatility in, and reductions of, our charter rates and volatility in our results of operations.

The oceangoing cargo transportation industry is both cyclical and volatile, with frequent and large fluctuations in charter rates. The charter rates earned by the vessels in our Ocean Business will depend in part upon the state of the vessel market at the time we seek to charter them. We cannot control the forces affecting the supply and demand for these vessels or for the goods that they carry or predict the state of the vessel market on any future date. If the vessel market is in a period of weakness when our vessels' charters expire or are about to expire, we may be forced to

re-charter our vessels at reduced rates or even possibly at a rate at which we would incur a loss on operation of our vessels.

Some of the factors that influence the demand for oceangoing vessel capacity include:

- global production of and demand for petroleum and petroleum products and dry bulk commodities;

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- the distance that these products and commodities must be transported by sea;
- the globalization of manufacturing and other developments in international trade;
- global and regional economic and political conditions;
- environmental and other regulatory developments;
- weather; and
- changes in seaborne and other transportation patterns and the supply of and rates for alternative means of transportation.

Some of the factors that influence the supply of oceangoing vessel capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- the price of steel;
- the number of vessels that are out of service at a given time;
- changes in environmental and other regulations that may limit the useful life of vessels; and
- port or canal congestion.

Our River Business can be affected by factors beyond our control, particularly adverse weather conditions that can affect production of the goods we transport and navigability of the river system on which we navigate.

We derive a significant portion of our River Business revenue from transporting soybeans and other agricultural and mineral products produced in the Hidrovia Region, as well as petroleum products consumed in the region. Droughts and other adverse weather conditions, such as floods, could result in a decline in production of agricultural products, which would likely result in a reduction in demand for our services. Drought conditions have affected the production of agricultural products during several years like 2005 and 2006, and are expected to have a negative impact in 2009 as well. Further, most of the operations in our River Business occur on the Parana and Paraguay Rivers, and any changes adversely affecting navigability of either of these rivers, such as low water levels, could reduce or limit our ability to effectively transport cargo on the rivers, as was the case in the High Parana River during the fourth quarters of 2007 and 2008.

The rates we charge and the quantity of freight we transport in our River Business can also be affected by:

- demand for the goods we ship on our barges;
- adverse river conditions, such as flooding or lock outages, that slow or stop river traffic;
- any accidents or operational disruptions to ports, terminals or bridges along the rivers on which we operate;
- changes in the quantity of barges available for river transport through the entrance of new competitors or expansion of operations by existing competitors;

- the availability of transfer stations and cargo terminals for loading of cargo on and off barges;

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- the availability and price of alternative means of transporting goods out of the Hidrovia Region; and
- the ability of buyers of commodities to open letters of credit and generally the ability of obtaining financing on reasonable terms or at all.

A prolonged drought or other series of events that is perceived by the market to have an impact on the region, the navigability of the Parana or Paraguay Rivers or our River Business in general may, in the short term, result in a reduction in the market value of the barges and pushboats that we operate in the region. These barges and pushboats are designed to operate in wide and relatively calm rivers, of which there are only a few in the world. If it becomes difficult or impossible to operate our barges and pushboats profitably in the Hidrovia Region and we are forced to sell them to a third party located outside of the region, there is a limited market in which we would be able to sell these vessels, and accordingly we may be forced to sell them at a substantial loss.

Demand for our platform supply vessels, or PSVs, depends on the level of activity in offshore oil and gas exploration, development and production.

The level of offshore oil and gas exploration, development and production activity has historically been volatile and is likely to continue to be so in the future. The level of activity is subject to large fluctuations in response to relatively minor changes in a variety of factors. A prolonged, material downturn in oil and natural gas prices is likely to cause a substantial decline in expenditures for exploration, development and production activity, which would likely result in a corresponding decline in the demand for PSVs and thus decrease the utilization and charter rates of our PSVs. Recently, the price of West Texas Intermediate crude oil has decreased from a high of \$134 in June 2008 to \$39 in February 2009. An increase in the order book for new tonnage beyond the growth of demand could result in a decline of the charter rates paid for PSVs in the market. Such decreases in demand or increases in supply could have an adverse effect on our financial condition and results of operations. Moreover, increases in oil and natural gas prices and higher levels of expenditure by oil and gas companies may not result in increased demand for our PSVs. The factors affecting the supply and demand for PSVs are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable. If the PSV market is in a period of weakness when our vessels' charters expire, or when new vessels are delivered, we may be forced to charter or re-charter our vessels at reduced rates or even possibly at a rate at which we would incur a loss on operation of our vessels.

Some of the factors that influence the supply and demand for PSVs include:

- worldwide demand for oil and natural gas;
- prevailing oil and natural gas prices and expectations about future prices and price volatility;
- the cost of offshore exploration for, and production and transportation of, oil and natural gas;
- consolidation of oil and gas service companies operating offshore;
- availability and rate of discovery of new oil and natural gas reserves in offshore areas;
- local and international political and economic conditions and policies;
- technological advances affecting energy production and consumption;
- weather conditions;
- environmental regulation;

- volatility in oil and gas exploration, development and production activity;

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- the number of newbuilding deliveries; and
- deployment of additional PSVs to areas in which we operate.

Our vessels and our reputation are at risk of being damaged due to operational hazards that may lead to unexpected consequences, which may adversely affect our earnings.

Our vessels and their cargos are at risk of being damaged or lost because of events such as marine disasters, bad weather, mechanical failures, structural failures, human error, war, terrorism, piracy and other circumstances or events. All of these hazards can also result in death or injury to persons, loss of revenues or property, environmental damage, higher insurance rates or loss of insurance cover, damage to our customer relationships that could limit our ability to successfully compete for charters, delay or rerouting, each of which could adversely affect our business. Further, if one of our vessels were involved in an accident with the potential risk of environmental pollution, the resulting media coverage could adversely affect our business.

If our vessels suffer damage, they may need to be repaired. The costs of repairs are unpredictable and can be substantial. We may have to pay repair costs that our insurance does not cover in full. The loss of revenue while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings. In addition, space at repair facilities is sometimes limited and not all repair facilities are conveniently located. We may be unable to find space at a suitable repair facility or we may be forced to travel to a repair facility that is not conveniently located near our vessels' positions. The loss of earnings while these vessels are forced to wait for space or to travel to more distant drydocking facilities would decrease our earnings.

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

The United States has entered into a recession and other parts of the world are exhibiting deteriorating economic trends. For example, the credit markets worldwide and in the United States have experienced significant contraction, de-leveraging and reduced liquidity, and the United States federal government, state governments and foreign governments have implemented and are considering a broad variety of governmental action and/or new regulation of the financial markets. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. The SEC, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws.

Recently, a number of financial institutions have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings or are in regulatory enforcement actions. The uncertainty surrounding the future of the credit markets in the United States and the rest of the world has resulted in reduced access to credit worldwide.

We face risks attendant to changes in economic environments, changes in interest rates, and instability in certain securities markets, among other factors. Major market disruptions and the current adverse changes in market conditions and regulatory climate in the United States and worldwide may adversely affect our business or impair our ability to borrow amounts under our credit facilities or any future financial arrangements. The current market conditions may last longer than we anticipate. These recent and developing economic and governmental factors may have a material adverse effect on our results of operations, financial condition or cash flows and could cause the price of our common shares to further decline significantly.



Because the fair market value of vessels fluctuates significantly, we may incur losses when we sell vessels.

Vessel values have historically been very volatile. The market value of our vessels may fluctuate significantly in the future, and we may incur losses when we sell vessels, which would adversely affect our earnings. Some of the factors that affect the fair market value of vessels, all of which are beyond our control, are:

- general economic, political and market conditions affecting the shipping industry;
- number of vessels of similar type and size currently on the market for sale;
- the viability of other modes of transportation that compete with our vessels;
- cost and number of newbuildings and vessels scrapped;
- governmental or other regulations;
- prevailing level of charter rates; and
- technological advances that can render our vessels inferior or obsolete.

Compliance with safety, environmental, governmental and other requirements may be very costly and may adversely affect our business.

The shipping industry is subject to extensive and changing international conventions and treaties, national, state and local environmental and operational safety laws and regulations in force in international waters and the jurisdictional waters of the countries in which the vessels operate, as well as in the country or countries in which such vessels are registered. These laws and regulations govern, among other things, the management and disposal of hazardous materials and wastes, the cleanup of oil spills and other contamination, air emissions, water discharges and ballast water management, and include (i) the U.S. Oil Pollution Act of 1990, as amended, or OPA, (ii) the International Maritime Organization, or IMO, International Convention on Civil Liability for Oil Pollution Damage of 1969, and its protocols of 1976, 1984, and 1992, or CLC, (iii) the IMO International Convention for the Prevention of Pollution from Ships, or MARPOL, (iv) the IMO International Convention on Civil Liability for Bunker Oil Pollution Damage, 2001, (v) the IMO International Convention for the Safety of Life at Sea of 1974, or SOLAS, (vi) the International Convention on Load Lines of 1966, (vii) the U.S. Maritime Transportation Security Act of 2002 and (viii) the International Ship and Port Facility Security Code, among others. In addition, vessel classification societies also impose significant safety and other requirements on our vessels. Many of these environmental requirements are designed to reduce the risk of oil spills and other pollution, and our compliance with these requirements can be costly.

These requirements can affect the resale value or useful lives of our vessels, require a reduction in cargo-capacity or other operational or structural changes, lead to decreased availability of insurance coverage for environmental matters, or result in the denial of access to, or detention in, certain ports. Local, national and foreign laws, as well as international treaties and conventions, can subject us to material liabilities in the event that there is a release of petroleum or other hazardous substances from our vessels. We could also become subject to personal injury or property damage claims relating to exposure to hazardous materials associated with our current or historic operations. In addition, environmental laws require us to satisfy insurance and financial responsibility requirements to address oil spills and other pollution incidents, and subject us to rigorous inspections by governmental authorities. Violations of such requirements can result in substantial penalties, and in certain instances, seizure or detention of our vessels. Additional laws and regulations may also be adopted that could limit our ability to do business or increase the cost of our doing business and that could have a material adverse effect on our operations. Government regulation of vessels, particularly in the areas of safety and environmental impact, may change in the future and require us to incur

significant capital expenditure on our vessels to keep them in compliance, or to even scrap or sell certain vessels altogether. For example, beginning in 2003 we sold all of our single hull oceangoing tanker vessels in response to

regulatory requirements in Europe and the United States. In addition, Annex VI of MARPOL, which became effective May, 2005, sets limits on sulphur oxide, nitrogen oxide and other emissions from vessel exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Future changes in laws and regulations may require us to undertake similar measures, and any such actions may be costly. We believe that regulation of the shipping industry will continue to become more stringent and more expensive for us and our competitors. For example, various jurisdictions are considering regulating the management of ballast water to prevent the introduction of non-indigenous species considered to be invasive, which could increase our costs relating to such matters.

All of our vessels are subject to Annex VI regulations. While we expect that our newbuilding vessels will meet relevant Annex VI requirements at the time of their delivery and that our existing fleet will comply with such requirements, subject to classification society surveys on behalf of the flag state, such compliance could require modifications to the engines or the addition of expensive emissions control systems, or both, as well as the use of low sulphur fuels. At present our vessels are complying with these requirements. It could happen that from time to time additional requirements may arise, but we do not expect them to have a material adverse effect on our operating costs.

MARPOL requirements impose phase-out dates for vessels that are not certified as double hull. Our Product Tankers (Miranda I, Alejandrina, Austral and Amadeo) and two of our Suezmax OBO vessels, Princess Nadia and Princess Susana, are fully certified by class as double hull vessels. Our third Suezmax OBO vessel, Princess Katherine, currently does not meet the configuration criteria and will require minor modifications to comply with these criteria before the end of 2010. These modifications will not involve major steel work. Our oceangoing barge Parana Petrol (formerly named Alianza G3), although of double hull construction, does not meet the minimum height criteria in double bottoms and the minimum distance in double side in correspondence with her slop tanks required by Rule 19 (formerly Rule 13) and, therefore, currently has a phase out date of December 2008. However, we have obtained a reconsideration from the Argentine Coast Guard which in practice means that this unit may be allowed to operate in inland Argentine waters in her present state until the end of her useful life.

In the United States, OPA provides that owners, operators and bareboat charterers are strictly liable for the discharge of oil in U.S. waters, including the 200 nautical mile zone off the U.S. coasts. OPA provides for unlimited liability in some circumstances, such as a vessel operator's gross negligence or willful misconduct. Liability limits provided for under OPA may be updated from time to time. OPA also permits states to set their own penalty limits. Most states bordering navigable waterways impose unlimited liability for discharges of oil in their waters. The IMO has adopted a similar liability scheme that imposes strict liability for oil spills, subject to limits that do not apply if the release is caused by the vessel owner's intentional or reckless conduct. The IMO and the European Union, or EU, also have adopted separate phase-out schedules applicable to non-double hull tankers operating in international and EU waters. These regulatory programs may require us to introduce modifications or changes to tank configuration to meet the EU double hull standards for our vessels or otherwise remove them from operation.

Under OPA, with certain limited exceptions, all newly built or converted tankers operating in U.S. waters must be built with double hulls conforming to particular specifications. Tankers that do not have double hulls are subject to structural and operational measures to reduce oil spills and will be precluded from operating in U.S. waters in most cases by 2015 according to size, age, hull configuration and place of discharge unless retrofitted with double hulls. In addition, OPA specifies annual inspections, vessel manning, equipment and other construction requirements applicable to new and existing vessels that are in various stages of development by the U.S. Coast Guard, or USCG.

The following information has been extracted from the TVEL/COC corresponding to the vessels' last inspection at a U.S. port.

Name	Phase-out date*	Last TVEL/COC issuance date**
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Princess Katherine	N/A	March 26, 2003
Princess Nadia	January 2014	August 26, 2001
Princess Susana	November 2014	February 18, 2003

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\* As per the last Tank Vessel Examination Letter, or TVEL/Certificate of Compliance, or COC. If the Princess Nadia and / or Princess Susana were to enter a U.S. port, their new TVEL / COC should show no phase-out date since after their dry docks (carried out between December 2006 and January 2007) both vessels comply with OPA for existing vessels.

\*\*The USCG inspects vessels upon entry to U.S. ports and determines when such vessels will be phased out under OPA, the dates of which are recorded in the TVEL or the COC. On April 30, 2001, the USCG replaced the TVEL with a newly generated document, the COC. The USCG issues the COC for each tanker if and when the vessel calls on a U.S. port and the COC is valid for a period of two years, with mid-period examination. All above TVEL are therefore expired and these vessels must be re-inspected upon their next entry into a U.S. port.

There was no phase-out date imposed on Princess Katherine at the time of its last inspection by the USCG. However, Princess Katherine could be given a phase out date if or when next inspected by the USCG since we have not yet made the necessary minor modifications in order to make her compliant with OPA for existing vessels.

The oceangoing cargo transportation industry is highly competitive, and we may not be able to compete successfully for charters with new entrants or established companies with greater resources or newer ships.

We employ our vessels in highly competitive markets. The oceangoing market is international in scope and we compete with many different companies, including other vessel owners and major oil companies, such as Transpetro, a subsidiary of Petrobras. In our Offshore Supply Business, we compete with companies that operate PSVs, such as GulfMark, Maersk, Seacor and Tidewater. Some of these competitors are significantly larger than we are and have significantly greater resources than we do. This may enable these competitors to offer their customers lower prices, higher quality service and greater name recognition than we do. Accordingly, we may be unable to retain our current customers or to attract new customers. Further, some of these competitors, such as Transpetro, are affiliated with or owned by the governments of certain countries, and may receive government aid or legally imposed preferences or other assistance, that are unavailable to us.

Our Oil-Bulk-Ore vessels, or OBOs, are less desired by certain charterers in the tanker market and their age may become an obstacle to chartering them.

OBOs are versatile because they can transport both petroleum products and dry bulk cargos. Unlike the more traditional type of tanker, an OBO has fewer tanks, but each tank is generally larger. Prior to the advent of computerized loading systems, the possibility of cargo shifting that could result in a vessel becoming unstable, required the use of extra caution when loading an OBO. While this issue, like other concerns originally linked to OBOs, has been solved with new technology, OBOs are still less desired by certain charterers who prefer to use the more traditional form of tanker to transport oil and other petroleum products. To the extent any charterers elect not to employ our OBOs and instead use standard tankers, this could have a negative impact on our business and financial results. Some of our vessels are over 20 years of age and may not be eligible for chartering by some major charterers resulting in lower charter earnings or the impossibility to charter them at all.

Increased inspection procedures and tighter import and export controls could increase costs and disrupt our business.

International shipping is subject to various security and customs inspection and related procedures in countries of origin and destination. Inspection procedures can result in the seizure of our vessels or their cargos, delays in the loading, offloading or delivery and the levying of customs duties, fines or other penalties against us.

Future changes to inspection procedures could impose additional financial and legal obligations on us. Furthermore, changes to inspection procedures could also impose additional costs and obligations on our customers and may, in certain cases, render the shipment of certain types of cargo uneconomical or impractical. Any such changes or

developments may have a material adverse effect on our business, financial condition, results of operations and ability to pay dividends.

Compliance with safety and other vessel requirements imposed by classification societies or flag states may be very costly and may adversely affect our business.

The hull and machinery of our offshore supply fleet and ocean fleet and parts of our river fleet are classed by classification societies. The classification society certifies that a vessel is in class, and may also issue the vessel's safety certification in accordance with the applicable rules and regulations of the country of registry of the vessel and SOLAS. Our classed vessels are currently enrolled with classification societies that are members of the International Association of Classification Societies.

A classed vessel must undergo Annual Surveys, Intermediate Surveys and Special Surveys. In lieu of a Special Survey, a vessel's machinery may be placed on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Our vessels are on Special Survey cycles for hull inspection and continuous survey cycles for machinery inspection. Generally, classed vessels are also required to be drydocked every two to three years for inspection of the underwater parts of such vessels. However, classed vessels must be drydocked for inspection at least twice every five years.

If a vessel does not maintain its class, that vessel will, in practical terms, be unable to trade and will be unemployable, which would negatively impact our revenues, and could cause us to be in violation of certain covenants in our loan agreements and/or our insurance policies.

Our vessels could be subject to seizure through maritime arrest or government requisition.

Crew members, suppliers of goods and services to a vessel, shippers of cargo, and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting the vessel or, under the "sister ship" theory of liability followed in some jurisdictions, arrest the vessel that is subject to the claimant's maritime lien or any other vessel owned or controlled by the same owner. In addition, a government could seize ownership of one of our vessels or take control of a vessel and effectively become her charterer at charter rates dictated by the government. Generally, such requisitions occur during a period of war or emergency. The maritime arrest, government requisition or any other seizure of one or more of our vessels could interrupt our operations, reducing related revenue and earnings, and may require us to pay very large sums of money to have the arrest lifted.

The impact of terrorism and international conflict on the global or regional economy could lead to reduced demand for our services, which would adversely affect our revenues and earnings.

Terrorist attacks such as the attacks on the United States on September 11, 2001, and the continuing response of the United States to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world markets and may affect our business, results of operations and financial condition. The conflict in Iraq may lead to additional acts of terrorism, regional conflict and other armed conflict around the world, which may contribute to further instability in the global markets. In addition, future terrorist attacks could result in an economic recession affecting the United States or the entire world. The effects of terrorism on financial markets could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all.

Terrorist attacks have, in the past, targeted shipping interests, including ports or vessels. For example in October 2002, there was a terrorist attack on the VLCC Limburg, a vessel not related to us. Any future attack in the markets we serve may negatively affect our operations or demand for our services, and such attacks may also directly impact our vessels or our customers. Further, insurance may not cover our loss or liability for terrorist attacks on our vessels or cargo either fully or at all. Any of these occurrences could have a material adverse impact on our operating results, revenue and costs.

#### Risks Relating to Our Company

We are an international company that is exposed to the risks of doing business in many different, and often less developed and emerging market countries.

We are an international company and conduct almost all of our operations outside of the United States, and we expect to continue doing so for the foreseeable future. Some of these operations occur in countries that are less developed and stable than the United States, such as Argentina, Bolivia, Brazil, Chile, China, India, Paraguay, South Africa and Uruguay. Some of the risks we are exposed to by operating in these countries include among others:

- political and economic instability, changing economic policies and conditions, and war and civil disturbances;
- recessions in economies of countries in which we have business operations;
- the imposition of additional withholding taxes or other taxes on our foreign income, tariffs or other restrictions on foreign trade or investment, including currency exchange controls and currency repatriation limitations;
- the imposition of executive and judicial decisions upon our vessels by the different governmental authorities associated with some of these countries;
- the imposition of or unexpected adverse changes in foreign laws or regulatory requirements;
- longer payment cycles in foreign countries and difficulties in collecting accounts receivable;
- difficulties and costs of staffing and managing our foreign operations; and
- acts of piracy or terrorism.

These risks may result in unforeseen harm to our business and financial condition. Also, some of our customers are headquartered in South America, and a general decline in the economies of South America, or the instability of certain South American countries and economies, could adversely affect that part of our business.

Our business in emerging markets requires us to respond to rapid changes in market conditions in these countries. Our overall success in international markets depends, in part, upon our ability to succeed in different legal, regulatory, economic, social and political conditions. We may not continue to succeed in developing and implementing policies and strategies which will be effective in each location where we do business. Further, the occurrence of any of the foregoing factors may have a material adverse effect on our business and results of operations.

Our earnings may be lower and more volatile if we do not efficiently deploy our vessels between longer term and shorter term charters.

We employ our ocean and offshore vessels on spot voyages, which are typically single voyages for a period of less than 60 days for our ocean vessels and five days for our PSVs, and on time charters and contracts of affreightment, which are longer term contracts for periods of typically three months to three years or more. As of December 31, 2008, six of our nine oceangoing vessels were employed under time charters expiring on dates ranging between three and 45 months, the vast majority of our fleet of pushboats and barges in our River Business were employed under contracts of affreightment ranging from one month to six years, and our three PSVs operating in the North Sea were employed under time charters expiring on dates ranging between four and six months. In addition, as of December 31, 2008 our two PSVs operating in Brazil were time chartered for periods expiring four to ten months later.

Although time charters and contracts of affreightment provide steady streams of revenue, vessels committed to such contracts are unavailable for spot voyages or for entry into new longer term time charters or contracts of affreightment. If such periods of unavailability coincide with a time when market prices have risen, such vessels will be unable to capitalize on that increase in market prices. If our vessels are available for spot charter or entry into new time charters or contracts of affreightment, they are subject to market prices, which may vary greatly. If such periods of availability coincide with a time when market prices have fallen, we may have to deploy our vessels on spot voyages or under long term time charters or contracts of affreightment at depressed market prices, which would lead to reduced or volatile earnings and may also cause us to suffer operating losses.



We may not be able to grow our business or effectively manage our growth.

A principal focus of our strategy is to continue to grow, in part by increasing the number of vessels in our fleet. The rate and success of any future growth will depend upon factors which may be beyond our control, including our ability to:

- identify attractive businesses for acquisitions or joint ventures;
- identify vessels for acquisitions;
- integrate any acquired businesses or vessels successfully with our existing operations;
- hire, train and retain qualified personnel to manage and operate our growing business and fleet;
- identify new markets;
- expand our customer base;
- improve our operating and financial systems and controls; and
- obtain required financing for our existing and new operations.

We may not be successful in executing our growth plans and could incur significant expenses and losses in connection therewith.

Furthermore, because the volume of cargo we ship in our River Business during a normal crop year is at or near the capacity of our barges during the peak season, our ability to increase volumes shipped in our River Business is limited by our ability to increase our barge fleet's carrying capacity, either through purchasing additional barges or increasing the size of our existing barges.

Our subsidiaries' credit facilities and the indenture governing our 9% First Preferred Ship Mortgage Notes due 2014, or the Notes, impose significant operating and financial restrictions on us that may limit our ability to successfully operate our business.

Our subsidiaries' credit facilities and the indenture governing the Notes impose significant operating and financial restrictions on us, including those that limit our ability to engage in actions that may be in our long term interests. These restrictions limit our ability to, among other things:

- incur additional debt;
- pay dividends or make other restricted payments;
- create or permit certain liens;
- make investments;
- engage in sale and leaseback transactions;
- sell vessels or other assets;

- create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to us;
- engage in transactions with affiliates; and

- consolidate or merge with or into other companies or sell all or substantially all of our assets.

For further information on this matter please refer to “Description of Credit Facilities and Other Indebtedness” in Item 5.B of this report. These restrictions could limit our ability to finance our future operations or capital needs, make acquisitions or pursue available business opportunities.

In addition, some of our subsidiaries' credit facilities require that our subsidiaries maintain specified financial ratios and satisfy financial covenants and debt-to-asset and similar ratios. We may be required to take action to reduce our debt or to act in a manner contrary to our business objectives to meet these ratios and satisfy these covenants and ratios. Events beyond our control, including changes in the economic and business conditions in the markets in which our subsidiaries operate, may affect their ability to comply with these covenants. We cannot assure you that our subsidiaries will meet these ratios or satisfy these covenants or that our subsidiaries' lenders will waive any failure to do so. A breach of any of the covenants in, or our inability to maintain the required financial ratios under, our subsidiaries' credit facilities would prevent our subsidiaries from borrowing additional money under the facilities and could result in a default under them.

If a default occurs under our credit facilities or those of our subsidiaries, the lenders could elect to declare such debt, together with accrued interest and other fees and expenses, to be immediately due and payable and proceed against the collateral securing that debt. Moreover, if the lenders under a credit facility or other agreement in default were to accelerate the debt outstanding under that facility, it could result in a cross default under other debt. If all or part of our debt were to be accelerated, we may not have or be able to obtain sufficient funds to repay it upon acceleration.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the Notes, and any amounts borrowed under any of our subsidiaries' credit facilities, and to fund our operations, will depend on our ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations, that currently anticipated business opportunities will be realized on schedule or at all, or that future borrowings will be available to us in amounts sufficient to enable us to service our indebtedness, including the Notes and any amounts borrowed under our subsidiaries' credit facilities, or to fund our other liquidity needs.

If we cannot service our debt, we will have to take actions such as reducing or delaying capital investments, selling assets, restructuring or refinancing our debt, or seeking additional equity capital. We cannot assure you that any of these remedies could, if necessary, be done on commercially reasonable terms, or at all. In addition, the indenture for the Notes and the credit agreements governing our subsidiaries' various credit facilities may restrict us from adopting any of these alternatives. If we are not successful in, or are prohibited from, pursuing any of these remedies and cannot service our debt, our secured creditors may foreclose on our assets over which they have been granted a security interest.

We may be unable to obtain financing for our growth or to fund our future capital expenditures, which could negatively impact our results of operations and financial condition.

In order to follow our current strategy for growth, we will need to fund future vessel acquisitions, increased working capital levels and increased capital expenditures. In the future, we will also need to make capital expenditures required to maintain our current fleet and infrastructure. Cash generated from our earnings may not be sufficient to fund all of these measures. Accordingly, we may need to raise capital through borrowings or the sale of debt or equity securities. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering, as well as by adverse market conditions resulting

from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. If we fail to obtain the funds necessary for capital expenditures required to maintain our fleet and infrastructure, we may be forced to take vessels out of service or curtail operations, which would harm our revenue and profitability. If we fail to obtain the funds that might be necessary to acquire new vessels, or increase our working capital or capital expenditures, we might not be able

to grow our business and our earnings could suffer. Furthermore, any issuance of additional equity securities could dilute your interest in us and the debt service required for any debt financing would limit cash available for working capital and the payment of dividends, if any.

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

The London market for dollar loans between banks has recently been volatile, with the spread between published LIBOR and the lending rates actually charged to banks in the London interbank market widening significantly at times. These conditions are the result of the recent disruptions in the international credit markets. Interest in most loan agreements in our industry has been based on published LIBOR rates. Recently, however, lenders have insisted on provisions that entitle the lenders, in their discretion, to replace published LIBOR as the base for the interest calculation with their cost-of-funds rate. If we are required to agree to such a provision in future loan agreements, our lending costs could increase significantly, which would have an adverse effect on our profitability, earnings and cash flow.

We may not be able to cover the margins that our cleared Forward Freight Agreements, or FFAs, might require.

As any other derivative instrument, cleared FFAs may require cash to cover margins. Our ability to cover required margins may be limited by lack of cash or readily available credit lines at the time of such margin calls, as well as by abnormally large margin calls due to market volatility. If we fail to cover margin calls, the bank that manages our account may settle down – partially or totally – the FFAs we have contracted, consequently debiting – partially or totally – the outstanding margins in our account at such date which may result in losses and / or loss of coverage, thus leaving the vessels' earnings exposed to the volatility of the spot market. As of December 31, 2008, the mark-to-market of our cleared FFAs positions was positive for us in \$5.8 million.

Investment in FFAs and other derivative instruments could result in losses.

We enter into FFAs for trading purposes or to utilize them as economic hedges to reduce our exposure to changes in the rates earned by some of our vessels in the normal course of our Ocean Business. FFAs generally cover periods ranging from one month to one year and involve contracts to provide a fixed number of theoretical days of voyages at fixed rates. Upon settlement, if the contracted charter rate is less than the settlement rate, the seller of the FFA is required to pay the buyer an amount equal to the difference between the contracted rate and the settlement rate, multiplied by the number of days in the specified period. Inversely, if the contracted rate is greater than the settlement rate, the buyer is required to pay the seller the settlement sum. If we take positions in FFAs and do not correctly anticipate rate movements or our assumptions regarding the relative relationships of certain vessels' earnings and other factors relevant to the FFA markets are incorrect, we could suffer losses in settling or terminating our FFAs. FFAs may be executed through, a clearing house, but may also be agreed "over the counter" in which case each party is accepting the signature of the other party as sufficient guarantee of its obligations under the contract.

Although clearing houses require the posting of cash as collateral to cover margins, the use of a clearing house reduces the Company's exposure to counterparty credit risk. We are exposed to market risk in relation to our positions in FFAs and could suffer substantial losses from these activities in the event our expectations prove to be incorrect. Certain FFAs may qualify as cash flow hedges for accounting purposes with the change in fair value of the effective portions being recorded in accumulated other comprehensive income (loss) as an unrealized profit or loss. The qualification of a cash flow hedge for accounting purposes may depend upon the employment of some of our vessels matching those taken into consideration when calculating the value of the FFAs we have entered into.

The fair market value of FFAs changes frequently and may have great volatility so the amounts recorded in our accounts (whether they qualify as cash flow hedges for accounting purposes or not) may not reflect correctly the fair value of those instruments at any other date than that as of which they were calculated.

The Company's loss (profit) or liability in respect of these instruments at any point in time may differ from the current amount recorded in our books.

Certain FFAs entered into for the charter hire of one or more of our vessels may cease to have that effect totally or partially. This may happen because the ship or ships the charter hire of which we intend to hedge may suffer an accident or become otherwise unable to render service on a temporary or permanent basis or because we may have miscalculated the day on which one or more of our vessels becomes free from a contracted employment, because our vessels are unable to earn the percentage of the typical vessel on which FFA values are published that we estimated when calculating the hedge, because one or more of our ships was sold, or because for whatever reason the actual rates of the vessels intended to be hedged do not mirror the parameters that were taken into consideration when calculating the hedge. In all these cases we may suffer losses.

Some of our FFAs may not qualify as cash flow hedges for accounting purposes and consequently we may have to record the market variation of such positions every quarter in our income statement as a financial result. Therefore the mark to market losses or gains resulting from these transactions will affect our published results in the quarter in which they are reported and may affect the value of our shares.

As of December 31, 2008, all of our FFAs covering positions in 2009 and 2010 qualified as cash flow hedges and had a mark-to-market of \$65.7 million.

If counterparties to our FFAs fail to make payments under the FFAs to us, it could affect our profitability, earnings and cash flow.

FFAs may be executed through a clearing house but may also be agreed "over the counter" in which case each party is accepting the signature of the other party as sufficient guarantee of its obligations under the contract. We are exposed to credit risk with respect to our counterparties and could suffer substantial losses if one or more of our counterparties fail to make required payments to us under the FFAs.

Our planned investments in our River Business are subject to significant uncertainty.

We intend to continue investing in expanding the size of our barges, constructing a new shipyard to build new barges and installing new engines that burn less expensive fuel in some of our line pushboats. It is possible that these initiatives will fail to result in increased revenues and lower fuel costs, fail to result in cost-effective barge construction, or that they will lead to other complications that would adversely affect our business.

The increased capacity created by expanding the size of our existing barges and by building new barges may not be utilized by the local transportation market at prevailing prices or at all. Our expansion activities may also be subject to delays, which may result in cost overruns or lost revenues. Any of these developments would adversely affect our revenue and earnings.

While we expect the heavier fuel that our new engines burn to continue to be available at a discount to the price of the fuel that we currently use, the heavier fuel may not be available at such a large discount or at any discount at all. In addition, operating our new engines will require specially trained personnel, and such personnel may not be readily available. Higher fuel or personnel costs would adversely affect our profitability.

The operation of these new engines may also result in other complications that cannot easily be foreseen and that may adversely affect the quantity of cargo we carry or lead to additional costs, which could adversely affect our revenue and earnings.

We believe that our initiatives will result in improvements in efficiency allowing us to move more tonnage per barge and / or per unit of pushing capacity. If we do not fully achieve these efficiencies, or do not achieve them as quickly as we plan, we will need to incur higher repair expenses to maintain fleet size by maintaining older barges or invest new capital as we replace aging / obsolete capacity. Either of these options would adversely affect our results of operations.



We may not be able to charter our new PSVs or renew charters for our existing PSVs, at attractive rates.

We expect the delivery of the fourth PSV being constructed in Brazil to occur in the second quarter 2009. Additionally, in 2007 we have contracted with a shipyard in India to construct four new PSVs and with another shipyard in China to construct two new PSVs all of them with expected deliveries between 2009 and 2010. All but one of these vessels are not currently subject to charters and may not be subject to charters on their date of delivery. Although we intend to charter these vessels by the time they are delivered, we may be unable to do so. Even if we do obtain charters for these vessels, or renew the ones in place for our existing PSVs, these charters may be at rates lower than those that currently prevail or those that we anticipated at the time we ordered the vessels. If we fail to obtain charters or if we enter into charters with low charter rates, our financial condition and results of operations could suffer.

We may face delays in delivery under our newbuilding contracts for PSVs which could adversely affect our financial condition and results of operations.

Our seven PSVs currently under construction and additional newbuildings for which we may enter into contracts may be subject to delays in their respective deliveries or even non-delivery from the shipyards. The delivery of our PSVs, and / or additional newbuildings for which we may enter into contracts, could be delayed, canceled, become more expensive or otherwise not completed because of, among other things:

- quality or engineering problems;
- changes in governmental regulations or maritime self-regulatory organization standards;
- work stoppages or other labor disturbances at the shipyard;
- bankruptcy or other financial crises of the shipyard;
- economic factors affecting the yard's ability to continue building the vessels as originally contracted;
- a backlog of orders at the shipyard;
- weather interference or a catastrophic event, such as a major earthquake or fire or any other force majeure;
- our requests for changes to the original vessel specifications;
- shortages of or delays in the receipt of necessary construction materials, such as steel or machinery, such as engines and critical components such as dynamic positioning equipment;
- our inability to obtain requisite permits or approvals or to receive the required classifications for the vessels from authorized classification societies; or
- a shipbuilder's failure to otherwise meet the scheduled delivery dates for the vessels or failure to deliver the vessels at all.

If the delivery of any PSV, and / or additional newbuildings for which we may enter into contracts, is materially delayed or canceled, especially if we have committed that vessel to a charter for which we become responsible for substantial liquidated damages to the customer as a result of the delay or cancellation, our business, financial condition and results of operations could be adversely affected. Although the building contracts typically incorporate penalties for late delivery, we cannot assure you that the vessels will be delivered on time or that we will be able to

collect the late delivery payment from the shipyards.

We cannot assure you that we will be able to repossess the vessels under construction or their parts in case of a default of the shipyards and, in those cases where we may have refund guarantees, we cannot assure that we will always be able to collect or that it will be in our interest to collect these guarantees.

We are a holding company, and depend entirely on the ability of our subsidiaries to distribute funds to us in order to satisfy our financial and other obligations.

We are a holding company, and as such we have no significant assets other than the equity interests of our subsidiaries. Our subsidiaries conduct all of our operations and own all of our operating assets. As a result, our ability to pay dividends and service our indebtedness depends on the performance of our subsidiaries and their ability to distribute funds to us. The ability of our subsidiaries to make distributions to us may be restricted by, among other things, restrictions under our credit facilities and applicable laws of the jurisdictions of their incorporation or organization. For example, some of our subsidiaries' existing credit agreements contain significant restrictions on the ability of our subsidiaries to pay dividends or make other transfers of funds to us. See "Description of Credit Facilities and Other Indebtedness" in Item 5.B of this report. Further, some countries in which our subsidiaries are incorporated require our subsidiaries to receive central bank approval before transferring funds out of that country. In addition, under limited circumstances, the indenture governing the Notes permits our subsidiaries to enter into additional agreements that can limit our ability to receive distributions from such subsidiaries. If we are unable to obtain funds from our subsidiaries, we will not be able to service our debt or pay dividends, should we decide to do so, unless we obtain funds from other sources, which may not be possible.

We depend on a few significant customers for a large part of our revenues, and the loss of one or more of these customers could adversely affect our revenues.

In each of our business segments, we derive a significant part of our revenues from a small number of customers. In 2008, our largest customer accounted for 13% of our total revenues, our second largest customer accounted for 13% of our total revenues, our third largest customer accounted for 13% of our total revenue and our five largest customers in terms of revenues, in aggregate, accounted for 59% of our total revenues. In addition, some of our customers, including many of our most significant customers, operate vessels and or barges of their own. These customers may decide to cease or reduce the use of our services for any number of reasons, including employing their own vessels. The loss of any one or a number of our significant customers, whether to our competitors or otherwise, could adversely affect our revenues and earnings.

Rising fuel prices may adversely affect our profits.

Fuel is the largest operating expense in our River Business where most of our contracts are contracts of affreightment under which we are paid per ton of cargo shipped. Currently, most of these agreements permit the adjustment of freight rates based on changes in the price of fuel. We may be unable to include this provision in these contracts when they are renewed or in future contracts with new customers. In our Ocean and Offshore Supply Businesses, the risk of variation of fuel prices under the vessels' current employment is generally borne by the charterers, since it is them who are generally responsible, at their expense, for the supply of fuel. In the future, we may become responsible for the supply of fuel to such vessels, in which case variations in the price of fuel could affect our earnings.

To the extent our contracts do not pass-through changes in fuel prices to our clients, we will be forced to bear the cost of fuel price increases. We may hedge in the futures market all or part of our exposure to fuel price variations. We cannot assure you that we will be successful in hedging our exposure. In the event of a default by our charterers or other circumstance affecting the performance of a contract of affreightment, we are subject to exposure under, and may incur losses in connection with, our hedging instruments.

In certain jurisdictions, the price of fuel is affected by high local taxes and may become more expensive than prevailing international prices. We may not be able to pass onto our customers the additional cost of such taxes and may suffer losses as a consequence of such inability.



Our success depends upon our management team and other employees, and if we are unable to attract and retain key management personnel and other employees, our results of operations may be negatively impacted.

Our success depends to a significant extent upon the abilities and efforts of our management team and our ability to retain them. In particular, many members of our senior management team, including our CEO and Executive Vice President, have extensive experience in the shipping industry and have held their roles with us since our inception. If we were to lose their services for any reason, it is not clear whether any available replacements would be able to manage our operations as effectively. The loss of any of the members of our management team could adversely affect our business prospects and results of operations and could lead to an immediate decrease in the price of our common stock. We do not maintain “key man” insurance on any of our officers. Further, the efficient and safe operation of our vessels requires skilled and experienced crew members. Difficulty in hiring and retaining such crew members could adversely affect the operation of our vessels, and in turn, adversely affect our results of operations.

Secondhand vessels are more expensive to operate and repair than newbuildings and may have a higher likelihood of accidents.

We purchased all of our oceangoing vessels, and substantially all of our other vessels with the exception of our PSVs, secondhand and our current business strategy generally includes growth through the acquisition of additional secondhand vessels. While we inspect secondhand vessels prior to purchase, we may not discover defects or other problems with such vessels prior to purchase. Any such hidden defects or problems, when detected, may be expensive to repair, and if not detected, may result in accidents or other incidents for which we are liable to third parties.

New vessels may experience initial operational difficulties.

New vessels, during their initial period of operation, have the possibility of encountering structural, mechanical and electrical problems. Normally, we will receive a warranty from the shipyard but we cannot assure you that it will always be effective to resolve the problem without additional costs to us.

As our fleet ages, the risks and costs associated with older vessels increase.

The costs to operate and maintain a vessel in operation increase with the age of the vessel. Charterers may prefer newer vessels which carry lower cargo insurance rates and are more fuel-efficient than older vessels. Governmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations or the addition of new equipment to our vessels and may restrict the type of activities in which these vessels may engage. As our vessels age, market conditions may not justify the expenditures necessary for us to continue operation of our vessels, and charterers may no longer charter our vessels at attractive rates or at all. Either development could adversely affect our earnings.

Spare parts or other key elements needed for the operation of our vessels may not be available off-the-shelf and we may face substantial delays which could result in loss of revenues while waiting for those spare parts to be produced and delivered to us.

Our vessels may need spare parts to be provided in order to replace old or damaged parts in the normal course of their operations. Given the increased activity in the maritime industry and the industry that supplies it, the manufacturers of key elements of our vessels (such as engine makers, propulsion systems makers, control systems makers and others) may not have the spare parts needed available immediately (or off-the-shelf) and may have to produce them when required. If this was the case, our vessels may be unable to operate while waiting for such spare parts to be produced, delivered, installed and tested, resulting in substantial loss of revenues for us.



We may not have adequate insurance to compensate us if our vessels or property are damaged or lost or if we harm third parties or their property or the environment.

We insure against tort claims and some contractual claims (including claims related to environmental damage and pollution) through memberships in protection and indemnity, or P&I, associations, or clubs. We also procure hull and machinery insurance and war risk insurance for our fleet. In some instances, we do not procure loss of hire insurance, which covers business interruptions that result in the loss of use of a vessel. We cannot assure you that such insurance will continue to be available on a commercially reasonable basis.

In addition to the P&I entry that we currently maintain for the PSVs in our fleet, we maintain third party liability insurance covering contractual claims that may not be covered by our P&I entry in the amount of \$50.0 million. If claims affecting such policy exceed the above amount, it could have a material adverse effect on our business and the results of operations.

All insurance policies that we carry include deductibles (and some include limitations on partial loss) and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Further, our insurance may not be sufficient to fully compensate us against losses that we incur, whether resulting from damage to or loss of our vessels, liability to a third party, harm to the environment, or other catastrophic claims. For example, our protection and indemnity insurance has a coverage limit of \$1.0 billion for oil spills and related harm to the environment, \$2.0 billion for passenger claims and \$3.0 billion for passenger and seamen claims. Although the coverage amounts are significant, the amounts may be insufficient to fully compensate us, and, thus, any uninsured losses that we incur may be substantial and may have a very significant effect on our financial condition. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our ships failing to maintain certification with applicable maritime self-regulatory organizations or lack of payment of premiums.

We cannot assure you that we will be able to renew our existing insurance policies on the same or commercially reasonable terms, or at all, in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in lack of availability of, protection and indemnity insurance against risks of environmental damage or pollution. Each of our policies is also subject to limitations and exclusions, and our insurance policies may not cover all types of losses that we could incur. Any uninsured or under-insured loss could harm our business, financial condition and operating results. Furthermore, we cannot assure you that the P&I clubs to which we belong will remain viable. We may also become subject to funding calls due to our membership in the P&I clubs which could adversely affect our profitability. Also, certain claims may be covered by our P&I insurance, but subject to the review and at the discretion of the board of the P&I club. We can not assure you that the board will exercise its discretion to vote to approve the claim.

Labor disruptions in the shipping industry could adversely affect our business.

As of December 31, 2008, we employed 252 land-based employees and approximately 877 seafarers as crew on our vessels. These seafarers are covered by industry-wide collective bargaining agreements that set basic standards applicable to all companies who hire such individuals as crew. Because most of our employees are covered by these industry-wide collective bargaining agreements, failure of industry groups to renew these agreements may disrupt our operations and adversely affect our earnings. In addition, we cannot assure you that these agreements will prevent labor interruptions. Any labor interruptions could disrupt our operations and harm our financial performance.

Certain conflicts of interest may adversely affect us.

Certain of our directors and officers hold similar positions with other related companies. Felipe Menendez R., who is our President, Chief Executive Officer, and a Director, is a Director of Oceanmarine, a related company that previously provided administrative services to us and has entered into joint ventures with us in salvage operations.

Oceanmarine also operates slot charter container services between Argentina and Brazil, an activity in which we do not engage at the present time. Ricardo Menendez R., who is our Executive Vice President and one of our Directors, is the President of Oceanmarine, and is also the Chairman of The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Limited, or Standard, a P&I club with which some of our vessels

are entered. For the years 2006, 2007 and 2008, we paid to Standard \$3.0 million, \$3.0 million and \$3.5 million respectively in insurance premiums. Both Mr. Ricardo Menendez R. and Mr. Felipe Menendez R. are Directors of Maritima SIPSA, a company owned 49% by us and 51% by SIPSA S.A. (a related company) and Directors of Shipping Services Argentina S.A. (formerly I. Shipping Services), a company that provides vessel agency services for third parties in Argentina and occasionally for our vessels calling at Buenos Aires and other Argentinean ports. We are not engaged in the vessel agency business for third parties and the consideration we paid for the services provided by Shipping Services Argentina S.A. to us amounted to less than \$0.2 million in 2008. Although these directors and officers attempt to perform their duties within each company independently, in light of their positions with such entities, these directors and officers may face conflicts of interest in selecting between our interests and those of Oceanmarine, Shipping Services Argentina S.A. and Standard. In addition, Shipping Services Argentina S.A. and Oceanmarine are indirectly controlled by the Menendez family, including Felipe Menendez R. and Ricardo Menendez R. These conflicts may limit our fleet's earnings and adversely affect our operations. We refer you to "Related Party Transactions" in Item 7.B in this report for more information on related party transactions.

We may not be able to fulfill our obligations in the event we suffer a change of control.

If we suffer a change of control, we will be required to make an offer to repurchase the Notes at a price of 101% of their principal amount plus accrued and unpaid interest within a period of 30 to 60 days. A change of control may also result in the banks that have other financings in place with us deciding to cross-default and/or accelerate the repayment of our loans. Under certain circumstances, a change of control of our company may also constitute a default under our credit facilities resulting in our lenders' right to accelerate their loans. We may not be able to satisfy our obligations if a change of control occurs.

If we are unable to fund our capital expenditures, we may not be able to continue to operate some of our vessels, which would have a material adverse effect on our business and financial condition or our ability to pay dividends.

In order to fund our capital expenditures, we may be required to incur borrowings or raise capital through the sale of debt or equity securities. Our ability to obtain credit facilities and access the capital markets through future offerings may be limited by our financial condition at the time of any such offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds necessary for future capital expenditures would limit our ability to continue to operate some of our vessels and could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends. Even if we are successful in obtaining such funds through financings, the terms of such financings could further limit our ability to pay dividends.

We are exposed to U.S. dollar and foreign currency fluctuations and devaluations that could harm our reported revenue and results of operations.

We are an international company and, while our financial statements are reported in U.S. dollars, some of our operations are conducted in foreign currencies. For example, in 2008, 89% of our revenues were denominated in U.S. dollars, 9% were denominated in British pounds and 2% were denominated in Brazilian reais. If the value of the U.S. dollar appreciates relative to the value of these other currencies, the U.S. dollar value of the revenues that we report on our financial statements could be materially adversely affected. Changes in currency exchange rates could adversely affect our reported revenues and could require us to reduce our prices to remain competitive in foreign markets, which could also have a material adverse effect on our results of operations. Further, we incur costs in multiple currencies that are different than, or in a proportion different to, the currencies in which we receive our revenues. Accordingly, if the currencies in which we incur a large portion of our costs appreciate in value against the currencies in which we receive a large portion of our revenue, our margins could be adversely affected. We have not historically hedged our exposure to changes in foreign currency exchange rates and, as a result, we could incur unanticipated losses. However, during 2008 we have entered into forward currency agreements to sell British pounds

at a fixed exchange rate to cover part of our exposure in the operations of our Offshore Supply Business in the North Sea.

We may have to pay tax on United States source income, which would reduce our earnings and cash flows.

Under the United States Internal Revenue Code of 1986, as amended, or the Code, 50% of the gross shipping income of our vessel owning or chartering for non-U.S. subsidiaries attributable to transportation that begins or ends, but that does not both begin and end, in the U.S. will be characterized as U.S. source shipping income. Such income will be subject to a 4% U.S. federal income tax without allowance for deduction, unless our subsidiaries qualify for exemption from tax under Section 883 of the Code and the Treasury Regulations promulgated there under.

For the calendar years 2006, 2007 our non-U.S. subsidiaries did not derive any U.S. source shipping income. Therefore our non-U.S. subsidiaries should not be subject to any U.S. federal income tax for either of 2006 or 2007, regardless of their qualification for exemption under Section 883.

For the 2008 tax year and each tax year thereafter, we believe that any U.S. source shipping income of our non-U.S. subsidiaries will qualify for the exemption from tax under Section 883 on the basis that our stock is primarily and regularly traded on the Nasdaq Global Market. However, we cannot assure you that our non-U.S. subsidiaries will qualify for that exemption. In addition, changes in the Code, the Treasury Regulations or the interpretation thereof by the Internal Revenue Service or the courts could adversely affect the ability of our non-U.S. subsidiaries to qualify for such exemption. If our non-U.S. subsidiaries are not entitled to that exemption, they would be subject to a 4% U.S. federal income tax on their U.S. source shipping income. The imposition of this tax could have a negative effect on our business and would result in decreased earnings.

Changes in tax laws or the interpretation thereof and other tax matters related to our UK tonnage tax election may adversely affect our future results.

We elected the application of the UK tonnage tax instead of the corporate tax on income for the qualifying shipping activities of our PSVs in the North Sea. Changes in tax laws or the interpretation thereof and other tax matters related to our UK tax election may adversely affect our future results as a tax on the income from qualifying shipping activities likely will be higher than the UK tonnage tax to which are currently subject.

#### ITEM 4 – INFORMATION ON THE COMPANY

##### A. HISTORY AND DEVELOPMENT OF THE COMPANY

In this annual report, unless the context otherwise indicates, the terms “we,” “us” and “our” (and similar terms) refer to Ultrapetrol (Bahamas) Limited and its subsidiaries and joint ventures.

We were originally formed, in conjunction with others, by members of the Menendez family with a single ocean going vessel in 1992, and were incorporated in our current form as a Bahamas corporation on December 23, 1997. Our registered offices are in Ocean Centre, Montagu Foreshore, East Bay St., Nassau, Bahamas. (P.O. Box SS-19084). Our agent in the Bahamas is H&J Corporate Services Ltd. Telephone number is +1 242 364 4755.

Our Ocean Business has grown through the investment of capital from the operation of our fleet along with other sources of capital to acquire additional vessels. In 1998, we issued \$135.0 million of 10 1/2% First Preferred Ship Mortgage Notes due 2008, or the Prior Notes. By 2001, our fleet reached 13 oceangoing vessels with a total carrying capacity of 1.1 million dwt. During 2003, in an effort to remain ahead of changing environmental protection regulations, we began to sell our entire single hull Panamax and Aframax fleets (five vessels in total), a process that we completed in early 2004. Since then, we have focused in developing two different ocean fleets: a Capesize / OBO fleet, and a Product Tanker fleet.

We began our River Business in 1993 with a single convoy comprised of one pushboat and four barges. In October 2000, we formed a joint venture, UABL Ltd., or UABL, with American Commercial Barge Lines Ltd., or ACL. From 2000 to 2004, we built UABL (our brand name in the River Business) into the leading river barge company in the Hidrovia Region of South America. Using

some of the proceeds from the sale of our single hull Panamax tankers, in 2004, we purchased from ACL their 50% equity interest in UABL and started a process of growth that included several load outs (imports) of barges and pushboats from the USA and acquisitions of smaller companies already present in the Hidrovia, such as Otto Candies.

During 2000, we received a \$50.0 million equity investment from an affiliate of Solimar Holdings, Ltd., or Solimar, a wholly-owned subsidiary of the AIG-GE Capital Latin American Infrastructure Fund, or the Fund. The Fund was established at the end of 1996 to make equity investments in South America, Mexico, Central America and the Caribbean countries. The Fund was also our partner in other ventures, including UP Offshore.

In December 2002, we began our relationship with International Finance Corporation, or IFC, which is the private sector arm of the World Bank Group that provides loans, equity, and other services to support the private sector in developing countries. In total, IFC, together with its participant banks and co-lenders, KfW and OFID, has since then provided us with approximately \$190.0 million of credit and equity commitments to support our River and Offshore Supply Businesses.

We formed our Offshore Supply Business during 2003 in a joint venture with a wholly-owned subsidiary of the Fund, and Comintra Enterprises Ltd. Our partners and us capitalized the business with \$45 million of common equity and \$70 million of debt and preferred equity from IFC to construct our initial fleet of six PSVs. On March 21, 2006, we separately purchased 66.67% of the issued and outstanding capital stock of UP Offshore (Bahamas) Ltd., or UP Offshore, a company through which we operate our Offshore Supply Business, from an affiliate of Solimar for a purchase price of \$48.0 million. Following this acquisition, we hold 94.45% of the issued and outstanding shares of UP Offshore.

In November 2004, we issued \$180.0 million of 9% First Preferred Ship Mortgage Notes due 2014, or the Notes. The proceeds of the Notes offering were used principally to prepay the Prior Notes and to buy an additional Ocean Business vessel, further invest in our River Business and to diversify into the Passenger Business with the acquisition of two passenger vessels. One of the passenger vessels has since been sold and the second laid-up, thus we have discontinued our Passenger Business.

In March 2006, we also acquired Ravenscroft Shipping (Bahamas) S.A., or Ravenscroft, the entity through which we manage the vessels in our Offshore Supply, Ocean, and Passenger Businesses, from other related companies.

On October 18, 2006, we completed the initial public offering of 12,500,000 shares of our common stock (our IPO), which generated gross proceeds to us of \$137.5 million. On November 10, 2006, the Underwriters of our IPO exercised their over-allotment option to purchase from the selling shareholders in our IPO an additional 232,712 shares of our common stock. We did not receive any of the proceeds from the sale of shares by these shareholders in the over-allotment option. The proceeds of this offering were basically used to de-lever the Company by paying the notes issued in relation with the purchases of UP Offshore and Ravenscroft explained above and by prepaying some relatively expensive debt in our River Business.

On April 19, 2007, we successfully completed a follow-on offering of 11,000,000 shares of our common stock, which generated gross proceeds to us of \$96.8 million and gross proceeds to the selling shareholders of \$112.2 million. Additionally, the Underwriters of our follow-on exercised their over-allotment option to purchase from the selling shareholders in our follow-on an additional 1,650,000 shares of our common stock. We did not receive any of the proceeds from the sale of shares by these shareholders in the over-allotment option. The proceeds of this offering were mainly used to fund the acquisition of the Otto Candies and the construction of our New Shipyard in our River Business, and the construction of the two first PSVs to be constructed in India in our Offshore Business.

Between June and November 2008, we entered into three loan agreements to finance up to \$168.6 million through three loan facilities with DVB / Natixis (as co-lenders) IFC and The OPEC Fund for International Development, or

OFID, that allow us to partially fund our expansion capital expenditure programs in the Offshore Supply Business and the River Business. As of December 31, 2008, we had drawn \$88.8 million out of the \$168.6 million committed.

## B. BUSINESS OVERVIEW

### Our Company

We are an industrial shipping company serving the marine transportation needs of clients in the geographic markets on which we focus. We serve the shipping markets for grain, forest products, minerals, crude oil, petroleum, and refined petroleum products, as well as the offshore oil platform supply market through our operations in the following three segments of the marine transportation industry.

- Our River Business, with 591 barges and 29 pushboats, is the largest owner and operator of river barges and pushboats that transport dry bulk and liquid cargos through the Hidrovia Region of South America, a large region with growing agricultural, forest and mineral related exports. This region is crossed by navigable rivers that flow through Argentina, Brazil, Bolivia, Paraguay and Uruguay to ports serviced by ocean export vessels. These countries are estimated to account for approximately 48% of world soybean production in 2009, as compared to 30% in 1995.
- Our Offshore Supply Business owns and operates vessels that provide critical logistical and transportation services for offshore petroleum exploration and production companies, in the North Sea and the coastal waters of Brazil. Our Offshore Supply Business fleet consists of five PSVs currently in operation and seven under construction. One PSV is under construction in Brazil with expected delivery in the second quarter of 2009. In addition, we contracted with a shipyard in India to construct four PSVs with deliveries commencing in 2009, and with another shipyard in China to construct two PSVs for deliveries in 2009.
- Our Ocean Business operates ten ocean-going vessels, including four Product Tankers that we use in the South American coastal trade where we have preferential rights and customer relationships, three Suezmax OBO, vessels, one Capesize vessel, one Oceangoing Pushboat and one inland tank barge. Our Ocean Business fleet has an aggregate carrying capacity of approximately 745,000 deadweight tons.
- We decided to discontinue the operations of our Passenger Business in December 2008. In line with this decision, we have laid up our only remaining passenger vessel, the Blue Monarch, and placed her in the market for sale.

We are focused on growing our businesses with an efficient and versatile fleet that will allow us to provide an array of transportation services to customers in several different industries. Our business strategy is to leverage our expertise and strong customer relationships to grow the volume, efficiency, and market share in a targeted manner. For example, we have been increasing the cargo capacity of our existing river barges to help increase our efficiency and market share. In addition, we have commenced a program to replace the current engines in ten of our pushboats, and increase the pushing capacity of some of them, with new engines that will allow us to operate using less expensive heavy fuel and maximize the size of our convoys reducing costs per ton transported. We expect that the delivery of the additional PSV we have under construction in Brazil as well as the new orders placed in India and China will allow us to further capitalize on the attractive offshore petroleum services market. We are also pursuing the expansion of our ocean fleet through acquisitions or bareboat charters of specific types of vessels, such as our latest addition, the Product Tanker M/T Austral, to participate in identified market segments. We are and will be also inspecting vessels to replace those that will require substitution in the near future in our business segments. Finally we are examining the possibility of building or converting ships to participate, within the same business segments that we presently operate, in sectors or sizes not covered by our present fleet. We believe that the versatility of our fleet and the diversity of industries that we serve reduce our dependency on any particular sector of the shipping industry and offer numerous growth opportunities.

Each of our businesses has seasonal aspects, which affect their revenues on a quarterly basis. The high season for our River Business is generally between the months of March and September, in connection with the South American

harvest and higher river levels. However, growth in the soy pellet manufacturing, minerals and forest industries may help offset some of this seasonality. The Offshore Supply Business operates year-round, particularly off the coast of Brazil, although weather conditions in the North Sea may

reduce activity from December to February. In the Ocean Business, demand for drybulk transportation tends to be fairly stable throughout the year, with the exceptions of the Chinese New Year in our first quarter and the European summer holiday season in our third quarter, which generally show lower charter rates.

We have a diverse customer base including large and well-known petroleum, agricultural and mining companies. Some of our significant customers in the last three years include affiliates of Apache, Archer Daniels Midland, British Gas, Bunge, Cargill, Chevron, Canadian Natural Resources, Continental Grain, Dreyfus, ENAP (the national oil company of Chile) Industrias Oleaginosas, MMX, Noble, Panocean, Petrobras (the national oil company of Brazil) Petropar (the national oil company of Paraguay) Rio Tinto, Swissmarine, Total, Trafigura, Vale and Vicentin.

#### Our Lines of Business

Revenues	2008	
Attributable to River Business	\$ 126,425	42%
Attributable to Offshore Supply Business	43,907	14%
Attributable to Ocean Business	133,243	44%
Total	\$ 303,575	100%

River Business. We have developed our River Business from a single river convoy comprising one pushboat and four barges in 1993 to the leading river transportation company in the Hidrovia Region today. Our River Business, which we operate through our subsidiary UABL, has 591 barges and 29 pushboats with approximately 1,005,000 dwt capacity. We currently own 547 dry barges that can transport agricultural and forestry products, iron ore and other cargos and 44 tanker barges that can carry petroleum products, vegetable oils and other liquids. We believe that we have more than twice the number of barges and dwt capacity than our nearest competitor in this river system. In addition, we use one 35,000 dwt barge designed for ocean trading, the Alianza G2, as a transfer station to provide storage and transshipment services of cargo from river barges to ocean export vessels. We operate our pushboats and barges on the navigable waters of the Parana, Paraguay and Uruguay Rivers and part of the River Plate in South America, also known as the Hidrovia Region. At over 2,200 miles in length, the Hidrovia Region is comparable to the Mississippi River in the United States and produces and exports a significant and growing amount of agricultural products. In addition to agricultural products, companies in the Hidrovia Region are expanding and initiating the production of other goods, including forest products, iron ore, and pig iron.

We are in the process of expanding the size of some of our barges to increase their cargo carrying capacity and maximize our fleet utilization. We have begun a program to expand the size of our Mississippi size barges and replace the bottom of some of them. We believe that enlarging our existing barges is a cost-effective way of growing our fleet's cargo carrying capacity. We have expanded near 50 barges to date. We also have begun a program to replace the engines in 10 of our line pushboats and additionally increase the pushing capacity of some of them. In connection with that program we have contracted to purchase 25 new engines from MAN Diesel and are building one new pushboat with expected commencement of service in the half quarter of 2009. The new engines will consume heavier grades of fuel which have been, from 2001 to 2008, 43.6% cheaper on average than the diesel fuel we currently consume.

Through joint ventures, we own and operate terminals at certain key locations to provide integral transportation services to our customers from origin to destination. We also own a drydock and repair facility to carry out fleet maintenance and have a long-term lease on our Ramallo facility where we conduct part of the barge enlargement program. We utilize night-running technology, which partially allows for night navigation of our convoys and improves asset efficiency. In order to maintain our existing fleet and expand our capacity, we have doubled the capacity of our Ramallo facility in Argentina and are finalizing the construction of our new shipyard for building barges and other vessels.

As increasing agricultural production is expected to maintain its trend over the next few years, the resulting significant additional cargo volumes and the need for renewing a significant portion of the existing fleet in the Hidrovia, require an efficient solution to create the capacity necessary for river transport.

We believe that bringing barges from the United States, which has been the source of the majority of the barges in the Hidrovia, is not a long term sustainable economical option to add capacity in a large scale, given the current tightness of supply in the United States market and the very high costs of transportation. Because we believe the Hidrovia area does not have an industrial unit capable of building barges efficiently on a larger scale, we are constructing a modern shipbuilding unit which we believe will be capable of producing barges and other vessels in a timely and cost efficient manner.

**Offshore Supply Business.** Our Offshore Supply Business, which we operate through UP Offshore, is focused on serving companies that are involved in the complex and logistically demanding activities of deepwater oil exploration and production. In 2003 we ordered the construction of six proprietarily designed and technologically advanced PSVs. We took delivery of and placed into service two of these vessels in 2005, two in 2006, one in 2007 and we expect the sixth and last vessel to be delivered and placed into service in the second quarter of 2009. In addition, we placed during 2007 orders to build further four PSVs in India and two in China with deliveries now expected to commence in the fourth quarter 2009. Our PSVs are designed to transport supplies, equipment, drill casings and pipes on deck, along with fuel, water, drilling fluids and bulk cement in under-deck tanks and a variety of other supplies to drilling rigs and offshore platforms. We currently employ three of these vessels under time charter contracts in the North Sea while the remaining two are employed under time charter contracts in Brazil with Petrobras. Upon delivery of each of the seven PSVs we currently have under construction, we intend to employ them in Brazil, the North Sea, and other international markets. Through one of our Brazilian subsidiaries, we have the competitive advantage of being able to operate a number of our PSVs in the Brazilian market with cabotage trading privileges, enabling the PSVs to obtain employment in preference to non-Brazilian flagged vessels.

The trend for offshore petroleum exploration, particularly in Brazil, has been to move toward deeper, larger and more complex projects, such as the recently discovered Tupi and Jupiter fields in Brazil, which we believe will result in increased demand for more sophisticated and technologically advanced PSVs to handle the more challenging environments and greater distances. Our PSVs are equipped with dynamic positioning capabilities, and greater cargo capacity and deck space, all of which provide us with a competitive advantage in efficiently serving our customers' needs.

**Ocean Business.** In our Ocean Business, we operate ten oceangoing vessels. Our three Suezmax OBO vessels and our Capesize vessel Princess Marisol transport dry cargo, such as iron ore and coal, on major routes around the globe. Our Suezmax OBOs could also transport liquid cargo, such as petroleum and petroleum products. Our four Product Tankers, one of which is on bareboat charter to us from a non related third party, are employed primarily in South American cabotage trade of petroleum and petroleum products. Our inland tank barge Parana Petrol is currently being refurbished to continue its service in South America. Our current ocean fleet has an aggregate cargo carrying capacity of near 745,000 dwt and an average age of approximately 16 years. Additionally, we own a large Oceangoing Pushboat.

We presently employ our Suezmax OBO vessels and our Capesize vessel in the carriage of dry bulk cargos on trade routes around the world, mostly transporting coal and iron ore from South America, Australia and South Africa to Europe, China and other Far East countries. During 2008, we derived over 72% of our Ocean Business revenues from charterers in Europe and South America, some of which are SwissMarine and Petrobras. Over the same period, we derived approximately 96% of our Ocean Business revenues from time charters with at least three months duration (including those FFA positions that qualified as cash flow hedges and were recorded in "Revenues – Ocean Business", representing a net realized loss of \$1.5 million) and 4% from spot voyages.

We currently employ our four Product Tankers, Miranda I, Alejandrina, Austral and Amadeo, under time charters with major oil companies serving the regional trade of Argentina and Brazil.

Our Miranda I and Amadeo, originally built as single hull vessels, were converted to double hull during 2007 in Argentina and Romania, respectively. Our vessels Princess Nadia and Princess Susana, at the end of 2006, were certified by their classification societies as double hull vessels, and our Alejandrina and Austral are already double hull. Princess Katherine, although generally of double hull design, needs reconfiguration of some service tanks to comply with the double hull requirements. This vessel is currently employed in dry cargo. Parana Petrol, although of double hull construction, does not meet certain tank minimum distances required. This vessel is qualified to operate in Argentinean inland water under an exemption to the double hull minimum distances requirements that may allow her to trade until the end of her useful life.

## Ultrapetrol Fleet Summary

	Number of Vessels	Capacity	Description
River Fleet			
Alianza G2	1	35,000 tons	Storage and Transshipment Station
Pushboat Fleet	29	104,850 BHP	Various Sizes and Horse Power
			Carry Liquid Cargo (Petroleum
Tank Barges	44	96,698 m3	Products, Vegetable Oil)
Dry Barges	547	923,370 tons	Carry Dry Cargo (Soy, Iron Ore)
Total(1)	591	N/A	

Offshore Supply Fleet	Year Built	Capacity (DWT)	Delivery Date
In Operation			
UP Esmeralda	2005	4,200	2005
UP Safira	2005	4,200	2005
UP Agua-Marinha	2006	4,200	2006
UP Topazio	2006	4,200	2006
UP Diamante	2007	4,200	2007

## Under Construction

UP Rubi	2009(2)	4,200	2009(2)
Indian PSV 1	2009(2)	4,200	2009 / 2010(2)
Indian PSV 2	2009(2)	4,200	2010(2)
Indian PSV 3	2010(2)	4,200	2010(2)
Indian PSV 4	2010(2)	4,200	2010(2)
Chinese PSV 1 (UP Jasper)	2009(2)	4,900	2009 / 2010(2)
Chinese PSV 2 (UP Turquoise)	2010(2)	4,900	2010(2)
Total		51,800	

Ocean Fleet	Year Built	DWT	Description
Princess Nadia	1987	152,328	Suezmax OBO
Princess Susana	1986	152,301	Suezmax OBO
Princess Katherine	1986	164,100	Suezmax OBO
Princess Marisol	1984	166,013	Capesize Vessel
Parana Petrol	1993 (3)	43,164	Inland Tank Barge
Miranda I	1995	6,575	Product / Chemical Tanker
Amadeo	1996	39,530	Oil / Product Tanker
Alejandrina	2006	9,219	Product Tanker
Austral(4)	2006	11,299	Product / Chemical Tanker
Argos I	1975	N/A	Oceangoing Pushboat
Total		744,529	

Passenger Fleet	Total Capacity (Passengers)	Total Number of Cabins
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Blue Monarch(5)	575	242
Total	575	242

- (1) As of March 17, 2009;
- (2) Expected build or delivery date, as applicable;
- (3) Originally built in 1982, converted in 1993 to product tank barge;
- (4) Operated under a Bareboat Charter.
- (5) Laid up and held for sale.

## Chartering Strategy

We continually monitor developments in the shipping industry and make charter-related decisions based on an individual vessel and segment basis, as well as on our view of overall market conditions.

In our River Business, we have contracted a substantial portion of our fleet's capacity on a one - to seven-year basis to major clients. These contracts provide fixed pricing, minimum volume requirements and fuel price adjustment formulas, and we intend to develop new customers and cargos as we grow our fleet capacity.

In our Offshore Supply Business, we plan to continue chartering our PSV fleet in Brazil for medium-term (one to six months) charters or long-term employment (up to seven years). Currently there is no spot market in Brazil for PSVs. In the North Sea, we intend to continue to operate our PSVs in the spot market (short duration, one day or more) combined with longer-term charters.

We historically have operated our Ocean Business vessels in both the spot market, which allows us to take advantage of potentially higher market rates, and under period charters, which allows us to achieve high utilization rates. We intend to continue to operate some of our ocean vessels in the spot market and others under period charters. We believe that this balanced approach to chartering will provide us with relatively stable revenue streams while enabling us to participate in favourable market developments. Since 2007, we have been utilizing FFAs as a means of fixing our vessels' earnings at a given market level.

## Our Fleet Management

We conduct the day-to-day management and administration of our operations in-house.

Ravenscroft, operating from its office in Coral Gables, Florida, employs 31 persons there and will continue to undertake all technical and marine related management for our offshore and ocean vessels including the purchasing of supplies, spare parts and husbandry items, crewing, superintendence and preparation and payment of all related accounts on our behalf. Ravenscroft is a self-contained full service ship management company, which includes commercial and accounting departments and is certified for ISM and is also ISO 9001:2000 certified. It holds Documents of Compliance for the management and operation of OBOs, tankers, bulk carriers, PSVs, general cargo vessels, passenger vessels and also for the ship management of vessels sold for demolition.

Ravenscroft seeks to manage vessels for and on behalf of vessel owners who are not related to us and will actively pursue new business opportunities.

In the case of our River Business, our commercial and technical management is also performed in-house.

## Competition

### River Business

We maintain a leading market share in our River Business. We own the largest fleet of pushboats and barges in the Hidrovia Region. We believe that we have more than twice the number of barges and dwt capacity than our nearest competitor. We compete based on reliability, efficiency and price. Key competitors include Navios South American Logistics, and Fluviomar. In addition, some of our customers, including Archer Daniels Midland, Cargill, Louis Dreyfus and Vale (who recently signed a purchase agreement to acquire Rio Tinto's assets related to its operation in Corumba, among others), have some of their own dedicated barge capacity, which they can use to transport cargo in lieu of hiring a third party. Our River Business also indirectly competes with other forms of land-based transportation

such as truck and rail.

#### Offshore Supply Business

In our Offshore Supply Business, our main competitors in Brazil are the local offshore companies that own and operate modern PSVs. The largest of these companies is CBO, which currently owns six modern PSVs and is building an additional two PSVs in Brazil.

Also, some of the international offshore companies that own and operate PSVs, such as Tidewater, Maersk and Chouest have built Brazilian-flagged PSVs. As part of our Offshore Supply operation in the North Sea we actively compete with other large, well established owners and operators such as Gulfmark Offshore, Bourbon or DOF Farstad.

#### Ocean Business

We face competition in the transportation of crude oil and petroleum products as well as other bulk commodities from other independent ship owners and from vessel operators who primarily charter-in vessels to meet their cargo carrying needs. The charter markets in which our vessels compete are highly competitive. Competition is primarily based on prevailing market charter rates, vessel location and vessel manager reputation. Our primary competitor in crude oil and petroleum products transportation within Argentina, and between Argentina and other South American countries, as well as in Chile, is Antares Naviera S.A. and its affiliated companies, including Ultragas, Lauderdale Tankers Corp, and Sonap S.A., an independent tanker owner and operator. The other major participant in the Argentina / Brazil trade is Transpetro. Transpetro is a subsidiary of Petrobras, our primary customer in Brazil. Navios South American Logistics, who is a competitor in our River operation, also competes in the Argentinean Coastal Tanker market. In other South American trades our main competitors are Heidmar Inc., Naviera Sur Petrolera S.A., Naviera Elcano (through their various subsidiaries) and Sonacol S.A. These companies and other smaller entities are regular competitors of ours in our primary tanker trading areas. In our dry bulk trades, we operate our vessels internationally where we compete against the main fleets of Capesize ships.

#### Industry Conditions

##### River Industry

Key factors driving cargo movements in the Hidrovia Region are agricultural production and exports, particularly soybeans, from Argentina, Brazil, Paraguay and Bolivia, exports of Brazilian iron ore, regional demand and Paraguay and Bolivia imports of petroleum products. A significant portion of the cargos transported in the Hidrovia Region are export or import-related cargos.

The Parana / Paraguay, the High Parana and the Uruguay rivers consist of over 2,200 miles of a single natural interconnected navigable river system serving five countries namely Argentina, Bolivia, Brazil, Paraguay and Uruguay. The size of this river system is comparable to the Mississippi river in the United States.

##### Dry Bulk Cargo

Soybeans. Argentina, Bolivia, Brazil, Paraguay, and Uruguay produced about 41.5 million tons, or mt, of soybeans in 1995 and 115.9 mt in 2008, a compound annual growth rate, or CAGR, of 8.2% from 1995. Production for these countries for 2009 is estimated at 106.9 mt. These countries account for an estimated 48% of world soybean production in 2009, down from 53% in 2008, due to a 9 mt decrease in South American soybean production in 2009 caused by significant droughts. Their market share has grown from only 30% in 1995.

According to industry sources, within the five countries of the Hidrovia Region, acreage harvested in soybeans has increased from approximately 18.9 Mha (million hectares, 1 hectare = 2.47 acres) in 1995 to an estimated 41.7 Mha in 2009, a CAGR of 5.8%. Further, with advances in technology, productivity of farmland has also improved.

The growth in soybean production has not occurred at the expense of other key cereal grains. Production of corn (maize) in Argentina, Bolivia, Brazil, Paraguay and Uruguay combined grew from 50.2 mt in 1995 to 82.4 mt in 2008, a CAGR of 3.9%. Production of wheat in these countries grew from 14.4 mt in 1995 to 21.7 mt in 2008, a CAGR of 3.2%.

Iron Ore. In the Corumba area in Brazil near the High Paraguay River, there are three large iron ore mines out of which two are owned by the international mining company Vale (following the recently announced acquisition of Rio Tinto's assets related to its operation in Corumba) and the third one is owned by MMX Mineração & Metálicos S.A. (MMX). Their combined production of iron

ore, which is entirely transported by barge, has grown from about 1.1 million mt (mmt) since 1999 to a 2008 estimate of about 5.3 mmt, a CAGR of 19.1%. Estimated production in 2009 is uncertain due to the current slowdown in world steel production and iron ore trade.

#### Oil transportation

Paraguay has no indigenous sources of petroleum. Barges using the rivers in the Hidrovia Region are currently the preferred method of supplying Paraguay with crude and petroleum products, according to industry sources totaling between 1.1 million cubic meters to 1.3 million cubic meters per year in the last 6 years.

All the petroleum products travel north to destinations in Northern Argentina, Paraguay and Bolivia, creating synergies with dry cargo volumes that mostly travel south.

#### Fleet developments and utilization

In the last 10 years the barge fleet in the Hidrovia Region has more than doubled, maintaining a high level of utilization. This has occurred not only due to the growth of production in the area, but also because cargo that in the past was transported by truck started to shift to river transport as the infrastructure developed. We believe that the available barge fleet in the area consists approximately of 1,500 dry and tank barges, in contrast with approximately 26,500 barges in the Mississippi River System in the United States.

UABL owns and operates near 40% of total dry cargo static capacity. The closest competitor, Fluviomar, operates approximately 17% of the dry cargo tonnage capacity. There are approximately 10 significant companies operating dry cargo barges in the Hidrovia Region.

Freight levels have been much less cyclical than in ocean transportation and are based on local supply and demand factors that are generally not related to ocean freights.

The barge business in the Parana River has seasonal fluctuations due to the agricultural aspect of the trade.

#### Mode Comparison

Along with growth in production of commodities transported by barge in the Hidrovia Region, cost, safety and environmental incentives exist to shift commodity transport to barges.

Inland barge transportation is generally the most cost efficient, safest and cleanest means of transporting bulk commodities as compared with railroads and trucks.

One Mississippi (1,500 dwt) barge has the carrying capacity of approximately 15 railcars or approximately 58 tractor-trailer trucks and is able to move 514 ton-miles per gallon of fuel compared to 202 ton-miles per gallon of fuel for rail transportation or 59 ton-miles per gallon of fuel for tractor-trailer transportation. In the case of Jumbo barges (2,500 dwt) as many of our existing barges or the ones we will build in our yard, these efficiencies are even larger. According to the U.S. Bureau of Transportation Statistics, barge transportation is also the safest mode of cargo transportation, based on the percentage of fatalities and the number of hazardous materials incidents, fatalities and injuries from 1999 through 2002. Inland barge transportation predominantly operates away from population centers, which generally reduces both the number and impact of waterway incidents. According to industry sources, in terms of unit transportation cost for most dry bulk cargos, barge is cheapest, rail is second cheapest, and truck is third cheapest. There are clear and significant incentives to build port infrastructure and switch from truck to barge to reduce cost.

Offshore Supply Industry

The market for offshore supply vessels, or OSVs, both on a worldwide basis and within Brazil, is driven by a variety of factors. On the demand side, the driver is the growth in offshore oil development / production activity, which in the long term is driven by the

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price of oil and the cost of developing the particular offshore reserves. Demand for OSVs is further driven by the location of the reserves, with fields located further offshore and in deeper waters requiring more vessels per field and larger, more technologically sophisticated vessels. The supply side is driven by the availability of the vessel type needed (i.e., appropriate size and technology), which in turn is driven by historical newbuilding patterns and scrapping rates as well as the current employment of vessels in the worldwide fleet (i.e., whether under long-term charter) and the rollover schedule for those charters. Technological developments also play an important role on the supply side, with technology such as dynamic positioning better able to meet certain support requirements.

Both demand for and supply of OSVs are heavily influenced by cabotage laws. Since most offshore supply activities occur within the jurisdiction of a country, they fall within that country's cabotage laws. This distinguishes the OSV sector from most other types of shipping. Cabotage laws may restrict the supply of tonnage, give special preferences to locally flagged ships or require that any vessel working in that country's waters be flagged, crewed, and in some cases, constructed in that country.

OSVs generally support oil exploration, production, construction and maintenance activities on the continental shelf and have a high degree of cargo capacity and flexibility relative to other offshore vessel types. They utilize space above and below deck to transport dry and liquid cargo, including heavy equipment, pipe, drilling fluids, provisions, fuel, dry bulk cement and drilling mud.

The OSV sector includes conventional supply vessels, or SVs and PSVs. PSVs are large and often sophisticated vessels constructed to allow for economic operation in environments requiring some combination of deepwater operations, long distance support, economies of scale, and demanding operating conditions. PSVs serve drilling and production facilities and support offshore construction and maintenance work for clusters of offshore locations and/or relatively distant deepwater locations. They have larger deck space and larger and more varied cargo handling capabilities relative to other offshore support vessels to provide more economic service to distant installations or several locations. Some vessels may have dynamic positioning which allows close station keeping while underway. PSVs can be designed with certain characteristics required for specific offshore trades such as the North Sea or deepwater Brazilian service.

The industry OSV fleet (SVs and PSVs) has approximately 1,822 vessels, with about 247 vessels on order. About 50% of the existing vessels are 25 years or more in age.

#### Brazilian Offshore Industry

Driven by Brazil's policy of becoming energy self-sufficient as well as by oil price and cost considerations, offshore exploration, development, and production activities within Brazil have grown. Since most Brazilian reserves are located far offshore in deep waters, where large, technologically-sophisticated vessels are needed, today, Brazil is a world leader in deep drilling technology.

The primary customer for PSVs in Brazil is Petrobras, the Brazilian national oil company. The Brazilian government has also allowed foreign companies to participate in offshore oil and gas exploration and production since 1999. Other companies active in Brazil in offshore oil and gas exploration and production industry include Total, Shell, BP, OGX, Repsol YPF and ChevronTexaco. The deepwater Campos Basin, an area located about 80 miles offshore, has been the leading area for offshore activity. Activities have been extended to the deepwater Santos and Espirito Santo Basins as well with activities now taking place in areas of water depths of over 9,000 ft. During 2008, several significant discoveries have been made.

Deepwater service favors modern vessels that can provide a full range of flexible services while providing economies of scale to installations distant from shore. Cabotage laws favor employment of Brazilian flag vessels. However, according to industry sources, many of the Brazilian flag PSV's and supply vessels are old, with approximately 25% of

the national fleet are at least 20 years of age. Temporary authority is granted for foreign vessels to operate only if no Brazilian flag vessels are available. According to industry sources, there are a total of approximately 102 Brazilian flag offshore vessels of various types, including anchor handling tug / supply vessels, crew boats, and others. Out of these, 57 are categorized as PSVs and SVs, including 5 large PSVs of 4,000 dwt or more. The current orderbook for Brazilian flag PSVs and SVs is approximately 30 vessels.

## The North Sea Market

The North Sea is a similarly demanding offshore market due to difficult weather and sea conditions, significant water depths, long distances to be traveled, and sophisticated technical requirements.

In 2000 and 2001, increases in oil prices led to increased North Sea exploration activity and higher OSV demand. Oil prices fell in early 2002, leading to questions regarding the sustainability of the higher oil prices and reduced exploration and development activity. Even with recovery in the West Texas Intermediate, or WTI, price to an average of about \$31 per barrel in 2003, North Sea exploration and development activity remained low. Low oil prices and availability of more attractive opportunities elsewhere resulted in a shift of activities by oil majors towards other regions. Oil prices continued their increase, with average WTI crude prices of about \$42 per barrel in 2004, \$57 per barrel in 2005, \$66 per barrel in 2006, \$72 per barrel in 2007 and \$100 in 2008. Exploration and development activities increased. Major oil companies returned to the North Sea while the independents remained and increased their activities. WTI crude oil prices have decreased from an average of \$77 per barrel in October 2008 to an average of \$39 per barrel during February 2009.

## Oil Tanker Industry Overview

The demand for tankers is a function of the volume of crude oil and petroleum products to be transported by sea and the distance between areas of oil consumption and oil production. The volume of crude oil and petroleum products transported is affected by overall demand for these products, which in turn is influenced by, among other things, general economic conditions, oil prices, weather, competition from alternative energy sources, and environmental concerns.

World oil demand increased from about 72.0 million barrels per day, or MBD, in 1996 to 85.7 MBD in 2008, a compounded annual growth rate, or CAGR, of approximately 1.5%. In 2008 world oil demand decreased by approximately 0.3 MBD. Oil demand decreased in all mature OECD regions by a total of 1.7 MBD. Demand increased elsewhere in developing regions by a total of 2.0 MBD.

During this same period, world oil supply increased from about 72.6 MBD in 1996 to 86.4 MBD in 2008, a CAGR of about 1.5%. OPEC crude oil production increased from 25.5 MBD in 1996 to 31.2 MBD in 2008, a CAGR of approximately 1.7%. Non-OPEC crude oil production increased from 44.2 MBD to 50.6 MBD, a CAGR of about 1.5%. (Note: All figures are adjusted to show Angola and Ecuador as members of OPEC and Indonesia as non-OPEC. OPEC figures include Iraqi production, which increased by about 0.3 MBD to approximately 2.4 MBD.)

World oil supply increased from about 85.6 MBD in 2007 to 86.4 MBD in 2008. OPEC crude oil production decreased by about 50.9 MBD in 2008 to 31.2 MBD. Non-OPEC production increased by 0.2 MBD to about 50.6 MBD. The supply-demand shortfall was supplied by reductions in oil inventories, which contributed to higher oil prices.

Benchmark West Texas Intermediate crude, or WTI, averaged around \$18 per barrel in 1995 (all crude prices are expressed in United States dollars) and averaged between approximately \$14 and \$23 through the rest of the 1990's. WTI prices increased in 2003 to an average of around \$31 per barrel, and continued to increase to an average \$42 per barrel in 2004, \$57 per barrel in 2005, \$66 per barrel in 2006 and \$72 in 2007. Oil prices increased from historically high levels in 2007 to even higher levels in 2008, with benchmark West Texas Intermediate, or WTI, crude averaging \$100 per barrel in 2008 compared with \$72 per barrel in 2007. Price volatility was high, with 2008 monthly average \$ per barrel prices ranging from about \$41 to \$134. WTI prices decreased late in 2008, reaching an average of about \$42 per barrel in January 2009 due to lower demand and market reaction to high oil supply relative to reduced oil demand.

## Tanker Classifications and Primary Trade Routes

The world oil tanker fleet is generally divided into six vessel sizes classified by dwt, which is an approximate measure of a vessel's cargo carrying capacity. In general, VLCC's / ULCC's primarily transport crude oil on long-haul trade routes (where oil producers are located more than approximately 5,000 miles from the end user, such as from the Arabian Gulf to the Far East, from the

Arabian Gulf to Rotterdam via the Cape of Good Hope, from the Arabian Gulf to the Red Sea, and from the Arabian Gulf to the US Gulf / Caribbean. Suezmax tankers trade on long-haul and short-haul routes as discussed below, while Aframax, Panamax, and Handy tankers serve routes typically in short-haul, regional markets (e.g., Latin America, Mediterranean, Southeast Asia).

Suezmax vessels are active in dirty trades (i.e., the transportation of crude oil and dirty petroleum products) from West Africa to the Americas, and in some Latin American dirty trades, including backhauls (return trips with a short ballast leg) to Europe and North America. Other major Suezmax trades include cross Mediterranean and intra-European trades.

Aframax, Panamax and Handysize tankers are active in Latin American dirty trades. Since Aframax tankers are the largest vessels capable of entering many U.S. ports, these vessels are often utilized on Latin America to U.S. trade routes to take advantage of economies of scale.

#### Factors Affecting Supply of Oil Tankers

The supply of tankers is determined by the size and technical suitability of the available fleet (i.e., size of a vessel versus port constraints, clean versus dirty cargo capabilities, charterer acceptability, etc.). Tanker owners include oil companies, government-owned shipping companies and independent vessel owners. There are also operators who do not own vessels but who charter their tonnage from independent vessel owners. The existing tanker fleet increases by newbuilding deliveries and decreases by the number of tankers scrapped or otherwise removed from the fleet. Fleet size also decreases when vessel tonnage becomes unavailable due to floating storage, layup, or repair. Newbuilding, scrapping, and vessel unavailability are affected by current and expected future vessel prices, charter hire rates, operating costs, age profile of the fleet, and government and industry regulation. For example, compared to historical averages, 2004-2008 earnings were high, while scrapping was low. As the market declined late in 2008, repair and retention of older vessels has become less economically attractive, and industry scrapping has increased.

The IMO adopted accelerated phase-out regulations for single hull tankers of 5,000 dwt or more carrying petroleum or petroleum products which entered into force in April 2005. The regulations are a complex set of requirements that accelerate the phase-out of pre- MARPOL "Category 1" tankers without protectively located segregated ballast to 2005. Single hull tankers with protectively located segregated ballast are to be phased out in 2010. Flag States may make exceptions for certain single hull, double bottom, or double sided vessels meeting determined quality and/or structural requirements that allow the vessels to continue in service until age 25 or the year 2015, whichever is earlier. Single hull vessels are also to be banned from carriage of certain heavy oils, with some exceptions allowed for double bottom or double sided vessels meeting certain quality criteria. Certain crude oils have been exempted. Port states may recognize the flag state exemptions or may choose to enforce the earlier phase-out dates. The effects of the regulations are complex but will tend to accelerate the phase-out of single hull vessels. Actual scrapping behavior will depend upon many variables including the state of the market and future flag state and port state implementation.

The European Union has had regulations in effect since 2003 that require double hull vessels be used for certain heavy oils, with no exceptions. These regulations apply to tankers of 5,000 dwt or more registered in European Union countries or entering waters within jurisdiction of European Union countries.

Along with mandatory regulations, there may be other factors encouraging scrapping of single hull tankers. Many charterers require or show preference for double hull vessels. This preference tends to reduce utilization of single hull vessels and to encourage scrapping.

Also, port congestion and canal congestion serve to limit effective supply at any one time.

Fleet Development

In 2005, 0.4 million dwt, or Mdw, of Suezmaxes were scrapped, while 4.0 Mdw were delivered. During 2006, none were scrapped, while 4.1 Mdw were delivered. During 2007, none were scrapped, while 4.0 Mdw were delivered. During 2008 0.3 Mdw were scrapped, while 2.2 Mdw were delivered. The current orderbook is 26.9 Mdw, with 10.3 Mdw due for delivery this year, 7.5 Mdw next year and 7.6 Mdw in 2010. The remainders are scheduled to be delivered in 2011 onwards. About 48.6 Mdw of Suezmaxes have double hulls, 2.5 Mdw have double bottoms or double sides, and 5.7 Mdw have single hulls.

The tanker fleet at December 2008 totalled 407 million dwt tons, of which 154 million dwt corresponds to VLCCs, 55 million dwt corresponds to Suezmax tankers, 81 million dwt to Aframax tankers, 26 million dwt correspond to Panamax tankers, and Small vessels (0 to 60,000 dwt) amount to 91 million dwt.

Tanker fleet on order for delivery in years 2009, 2010 and 2011 and onwards is 54 million dwt, 52 million dwt and 57 million dwt, respectively.

#### Chemical Tankers

Vessels with IMO Chemical Classification are required for transport of chemicals. International regulations for the transportation of chemicals specify protective location, stability requirements, safety criteria for survivability and containment in certain damage cases, maximum tank sizes and other criteria. These standards are grouped into IMO Chemical Classifications. A "Type 1" vessel is a chemical tanker intended for the transportation of products considered to present the greatest overall hazard and "Type 2" and "Type 3" vessels for products of progressively lesser hazards. Vessels may have tank capacity on board meeting different IMO classifications. For example, a vessel may have Type 1 and Type 2 cargo tanks or Type 2 and Type 3 tanks. Type 1 and Type 2 capacity vessels have protective location requirements that require void spaces between bottom and side shell plating of the vessels, effectively requiring double bottoms or double hulls. Type 3 capacity vessels do not have protective location requirements.

Revised MARPOL Annex 2 regulations took effect on January 1, 2007, requiring Type 2 or double hull Type 3 vessels for the transport of vegetable and other edible oils and expanding IMO class chemical transport requirements.

#### Dry Bulk Industry

The international dry bulk cargo market is a global industry and is affected by many factors throughout the world. Important industry conditions for dry bulk shipping include world dry bulk commodity production and demand, the size of the international dry bulk vessels and combination carrier fleet, the new production and scrapping of oceangoing dry bulk vessels and freight rates. Both Capesize dry bulk vessels and combination carriers transport dry bulk cargos, such as iron ore and coal.

#### Dry Bulk Demand and Production

Seaborne iron ore trade grew from an estimated 392 mmt in 1996 to about 844 mmt in 2008, a CAGR of 6.6%. High demand for steel in China has led to growth in Chinese iron ore imports from about 44 mmt in 1996 to 444 mmt in 2008, a CAGR of 21.3%. This increase includes growth of about 60 mmt in 2008, a year on year increase of about 16%. Iron ore trade decreased in the last three months of 2008 due to lower Chinese steel production and iron ore imports. Recovery iron ore trade in 2009 will be dependent in recovery in Chinese and world steel demand.

Other Asian countries, such as Japan and Korea, have required increasing iron ore imports. The top iron ore exporters are Australia and Brazil, accounting for about 70% of estimated 2008 seaborne iron ore trade. Australian exports grew from 132 mmt in 1996 to an estimated 306 mmt in 2008, including 39 mmt of growth in 2008. Brazil's iron ore exports increased from 129 mmt in 1996 to 282 mmt in 2008, which includes 13 mmt of growth in 2008.

Coal trade is made up of thermal coal (steam coal), burned for its heat value primarily in power generation, and metallurgical coal (coking coal, met coal), used in steelmaking. Estimated seaborne steam coal trade grew from about 260 mmt in 1996 to about 573 mmt in 2008, a CAGR of 6.8%, which includes 8 mmt of growth in 2008. Leading coal exporters are Indonesia, Australia, South Africa, Colombia, Russia and China.



## Capesize dry bulk vessels and combination carriers

Capesize dry bulk vessels and combination carriers have a cargo carrying capacity of 100,000 dwt or greater. (Note: Capesize vessel is now defined as 100,000 dwt or greater.) Capesizes primarily transport iron ore and coal on trade routes where lack of port constraints (especially depth of water) and cargo parcel size limits allow realization of economies of scale.

As of December 31, 2008, there were 819 Capesize dry bulk vessels comprising approximately 143 Mdw. The orderbook as of December 31, 2008 was 152 Mdw (817 vessels) with 31 Mdw due for delivery 2009, 61 Mdw in 2010 and the balance of 60 Mdw scheduled to be delivered in 2011 and onwards. Some cancellation of newbuilding orders is taking place, which, if continued, could reduce the newbuilding orderbook significantly.

## Industry Scrapping

Drybulk vessel scrapping has been very low due to the high earnings of the vessels until late in 2008. However, as rates have fallen significantly, 5 Mdw have been scrapped in the last three months of 2008.

## Environmental and Government Regulation

Government regulations significantly affect our operations, including the ownership and operation of our vessels. Our operations are subject to international conventions, national, state and local laws, and regulations in force in international waters and the jurisdictional waters of the countries in which our vessels may operate or are registered, including OPA, the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, the U.S. Port and Tanker Safety Act, the IMO International Convention for the Prevention of Pollution from Ships, or MARPOL, other regulations adopted by the IMO and the European Union, various volatile organic compound emission requirements, the IMO / U.S. Coast Guard pollution regulations and various SOLAS amendments, as well as other regulations. Compliance with these requirements entails significant expense, including vessel modifications and implementation of certain operating procedures.

A variety of governmental and private entities, each of which may have unique requirements, subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (U.S. Coast Guard, harbor master or equivalent), port state controls, classification societies, flag state administration (country of registry) and charterers, particularly terminal operators. Certain of these entities require us to obtain permits, licenses and certificates for the operation of our vessels. Failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of our vessels.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We are required to maintain operating standards for all of our vessels for operational safety, quality maintenance, continuous training of our officers and crews, and compliance with U.S. and international regulations. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations; however, because such laws and regulations are frequently changing and may impose increasingly stricter requirements, such future requirements may limit our ability to do business, increase our operating costs, force the early retirement of our vessels, and / or affect their resale value, all of which could have a material adverse effect on our financial condition and results of operations.

## Environmental Regulation – IMO

The IMO has negotiated international conventions that impose liability for oil pollution in international waters and a signatory's territorial waters. For example, MARPOL imposes environmental standards on the shipping industry relating to oil spills, management of garbage, the handling and disposal of noxious liquids, harmful substances in packaged forms, sewage and air emissions. In particular, MARPOL requirements impose phase-out dates for vessels that are not certified as double hull. One of our Suezmax OBO vessels currently does not meet the configuration criteria and will require minor modifications to comply with these criteria before the end of 2010. Annex III of MARPOL regulates the transportation of marine pollutants, including standards on packing, marking, labeling,

documentation, stowage, quality limitations and pollution prevention. These requirements have been expanded by the International Maritime Dangerous Goods Code, which imposes additional standards for all aspects of the transportation of dangerous goods and marine pollutants by sea. In September 1997, the IMO adopted Annex VI to the MARPOL Convention to address air pollution from ships. Annex VI was ratified in May 2004, and became effective in May 2005. Annex VI sets limits on sulphur oxide and nitrogen oxide emissions from vessel exhausts and prohibits deliberate emissions of ozone depleting substances (such as halons and chlorofluorocarbons) emissions of volatile compounds from cargo tanks, and the shipboard incineration of specific substances. Annex VI also includes a global cap on the sulphur content of fuel oil and allows for special areas to be established with more stringent controls on sulphur emissions. Additional or new conventions, laws and regulations may be adopted that could adversely affect our ability to manage our ships.

The operation of our vessels is also affected by the requirements set forth in the IMO International Management Code for the Safe Operation of Ships and for Pollution Prevention, or the ISM Code. The ISM Code requires vessel owners and bareboat charterers to develop and maintain an extensive “Safety Management System” that includes, among other things, 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 ISM Code requires that vessel operators obtain a safety management certificate for each vessel they operate. No vessel can obtain a certificate unless its manager has been awarded a document of compliance, issued by each flag state, under the ISM Code. The failure of a vessel owner or bareboat charterer to comply with the ISM Code may subject such 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, certain ports. Currently, each of the vessels in our fleet is ISM code-certified. However, there can be no assurance that such certification will be maintained indefinitely.

#### Environmental Regulations – OPA

OPA established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in United States waters, which includes the United States territorial sea and the 200 nautical mile exclusive economic zone around the United States.

Under OPA, vessel owners, operators and bareboat charterers are “responsible parties” and are liable without regard to fault (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, including bunkers (vessel fuel).

OPA previously limited liability of a responsible party 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). OPA also limited the liability of responsible parties to the greater of \$600 per gross ton or \$500,000 for any non tank vessel that is over 300 gross tons (subject to possible adjustment for inflation). Amendments to OPA signed into law in July 2006 increased the limits on the liability of responsible parties to the greater of \$3,000 per gross ton or \$ 22.0 million per single hull tanker over 3,000 gross tons that is not a double hull vessel (e.g., a single hull, double side or double bottom vessel) or to the greater of \$1,900 per gross ton or \$16.0 million per tanker that is a double hull vessel over 3,000 gross tons (effective October 9, 2006), and \$950 per gross ton or \$800,000 for any non-tank vessel that is over 300 gross tons (effective immediately). These OPA liability limits do not apply if an incident was caused by a violation of certain construction or operating regulations or a responsible party’s 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 oil removal activities. In addition, CERCLA, which applies to the discharge of hazardous substances (other than oil) whether on land or at sea, contains a similar liability regime and provides for cleanup, removal and natural resource damages. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5 million for vessels carrying a hazardous substance as cargo and the greater of \$300

per gross ton or \$500,000 for any other vessel, unless the incident is caused by gross negligence, willful misconduct, or a violation of certain regulations, in which case liability is unlimited.

We currently maintain, for each of our vessels, pollution liability coverage insurance in the amount of \$1 billion per incident. If the damages from a catastrophic spill exceeded our insurance coverage, it could have a material adverse effect on our business and the results of operations.

The financial responsibility regulations issued under OPA require owners and operators of vessels to establish and maintain with the United States Coast Guard evidence of financial responsibility in the amount of \$2,200 per gross ton for double hull tankers, which combines the OPA limitation on liability of \$1,900 per gross ton and the CERCLA limit of \$300 per gross ton. Under the regulations, vessel owners and operators may evidence their financial responsibility by showing proof of insurance, surety bond, self-insurance, or guaranty and are required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the vessels in the fleet having the greatest maximum liability under OPA.

The Coast Guard's regulations concerning certificates of financial responsibility provide, in accordance with OPA, that claimants may bring suit directly against an insurer or guarantor that furnishes certificates of financial responsibility. In the event that such 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. Certain organizations, which had typically provided certificates of financial responsibility under pre-OPA laws, including the major protection and indemnity organizations have declined to furnish evidence of insurance for vessel owners and operators if they are subject to direct actions or required to waive insurance policy defenses. Under the self-insurance provisions, the vessel 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. We have complied with the Coast Guard regulations by providing a financial guaranty evidencing sufficient self-insurance.

OPA expressly permits individual 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 vessels owners' responsibilities under these laws. OPA also amended the Federal Water Pollution Control Act to require owners and operators of vessels to adopt contingency plans for reporting and responding to oil spill scenarios up to a "worst case" scenario and to identify and ensure, through contracts or other approved means, the availability of necessary private response resources to respond to a "worst case discharge." In addition, periodic training programs for shore and response personnel and for vessels and their crews are required. The U.S. Coast Guard has approved our vessel response plans.

OPA also requires that tankers over 5,000 gross tons calling at U.S. ports have double hulls if contracted after June 30, 1990 or delivered after January 1, 1994. Furthermore, under OPA, oil tankers without double hulls will not be permitted to come to U.S. ports or trade in U.S. waters by 2015. Although all of our oceangoing vessels are double hull, one of these vessels (the Princess Katherine) is subject to phase-out under OPA due to configuration requirements. Based on current OPA requirements, this vessel will not be eligible to carry oil as cargo within the 200 nautical mile United States exclusive economic zone starting in 2014, except that these tankers may trade in U.S. waters until 2015 if their operations are limited to discharging their cargos at the Louisiana Offshore Oil Port or off-loading by lightering within authorized lightering zones more than 60 miles offshore. Lightering is the process by which vessels at sea off-load their cargo to smaller vessels for ultimate delivery to the discharge port.

We believe we are in substantial compliance with OPA, CERCLA and all applicable state regulations in the ports where our vessels call.

The U.S. Clean Water Act

The U.S. Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances in U.S. navigable waters unless authorized by a duly-issued permit or exemption, 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 and CERCLA.

The United States Environmental Protection Agency, or EPA, historically exempted the discharge of ballast water and other substances incidental to the normal operation of vessels in U.S. waters from CWA permitting requirements. However, on March 31, 2005, a U.S. District Court ruled that the EPA exceeded its authority in creating an exemption for ballast water. On September 18, 2006, the court issued an order invalidating the exemption in the EPA's regulations for all discharges incidental to the normal operation of a vessel as of September 30, 2008, and directed the EPA to develop a system for regulating all discharges from vessels by that date. The District Court's decision was affirmed by the Ninth Circuit Court of Appeals on July 23, 2008. The Ninth Circuit's ruling meant that owners and operators of vessels traveling in U.S. waters would soon be required to comply with the CWA permitting program to be developed by the EPA or face penalties. Seeking to provide relief to certain types of vessels, the U.S. Congress enacted laws in July 2008 that exempted from the impending CWA vessel permitting program recreational vessels, commercial fishing vessels, and any other commercial vessel less than 79 feet in length.

In response to the invalidation and removal of the EPA's vessel exemption by the Ninth Circuit, the EPA has enacted rules governing the regulation of ballast water discharges and other discharges incidental to the normal operation of vessels within U.S. waters. Under the new rules, which took effect February 6, 2009, commercial vessels 79 feet in length or longer (other than commercial fishing vessels), which we refer to as regulated vessels, are required to obtain a CWA permit regulating and authorizing such normal discharges. This permit, which the EPA has designated as the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, or VGP, incorporates the current U.S. Coast Guard requirements for ballast water management as well as supplemental ballast water requirements, and includes limits applicable to 26 specific discharge streams, such as deck runoff, bilge water and gray water.

For each discharge type, among other things, the VGP establishes effluent limits pertaining to the constituents found in the effluent, including best management practices, or BMPs, designed to decrease the amount of constituents entering the waste stream. Unlike land-based discharges, which are deemed acceptable by meeting certain EPA-imposed numerical effluent limits, each of the 26 VGP discharge limits is deemed to be met when a regulated vessel carries out the BMPs pertinent to that specific discharge stream. The VGP imposes additional requirements on certain regulated vessel types, including tankers, that emit discharges unique to those vessels. Administrative provisions, such as inspection, monitoring, recordkeeping and reporting requirements are also included for all regulated vessels.

On August 31, 2008, the District Court ordered that the date for implementation of the VGP be postponed from September 30, 2008 until December 19, 2008. This date was further postponed until February 6, 2009 by the District Court. Although the VGP became effective on February 6, 2009, the VGP application procedure, known as the Notice of Intent, or NOI, has yet to be finalized. Accordingly, regulated vessels will effectively be covered under the VGP from February 6, 2009 until June 19, 2009, at which time the "eNOI" electronic filing interface will become operational. Thereafter, owners and operators of regulated vessels must file their NOIs prior to September 19, 2009, or the Deadline. Any regulated vessel that does not file an NOI by the Deadline will, as of that date, no longer be covered by the VGP and will not be allowed to discharge into U.S. navigable waters until it has obtained a VGP. Any regulated vessel that was delivered on or before the Deadline will receive final VGP permit coverage on the date that the EPA receives such regulated vessel's complete NOI. Regulated vessels delivered after the Deadline will not receive VGP permit coverage until 30 days after their NOI submission. Our fleet is composed entirely of regulated vessels, and we intend to submit NOIs for each vessel in our fleet as soon after June 19, 2009 as practicable.

In addition, pursuant to §401 of the CWA which requires each state to certify federal discharge permits such as the VGP, certain states have enacted additional discharge standards as conditions to their certification of the VGP. These local standards bring the VGP into compliance with more stringent state requirements, such as those further restricting ballast water discharges and preventing the introduction of non-indigenous species considered to be invasive. The VGP and its state-specific regulations and any similar restrictions enacted in the future will increase the costs of operating in the relevant waters.



## The U.S. Clean Air Act

The U.S. Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1977 and 1990, or the CAA, requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas. Our vessels that operate in such port areas with restricted cargoes are equipped with vapor recovery systems that satisfy these requirements. The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in primarily major metropolitan and/or industrial areas. Several SIPs regulate emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. As indicated above, our vessels operating in covered port areas are already equipped with vapor recovery systems that satisfy these existing requirements.

The amended Annex VI to the MARPOL Convention, which addresses air pollution from ships, was ratified by the United States on October 9, 2008 and entered into force domestically on January 8, 2009. The EPA and the state of California, however, have each proposed more stringent regulations of air emissions from ocean-going vessels. On July 24, 2008, the California Air Resources Board of the State of California, or CARB, approved clean-fuel regulations applicable to all vessels sailing within 24 miles of the California coastline whose itineraries call for them to enter any California ports, terminal facilities, or internal or estuarine waters. The new CARB regulations require such vessels to use low sulfur marine fuels rather than bunker fuel. By July 1, 2009, such vessels are required to switch either to marine gas oil with a sulfur content of no more than 1.5% or marine diesel oil with a sulfur content of no more than 0.5%. By 2012, only marine gas oil and marine diesel oil fuels with 0.1% sulfur will be allowed. CARB unilaterally approved the new regulations in spite of legal defeats at both the district and appellate court levels, but more legal challenges are expected to follow. If CARB prevails and the new regulations go into effect as scheduled on July 1, 2009, in the event our vessels were to travel within such waters, these new regulations would require significant expenditures on low-sulfur fuel and would increase our operating costs. Finally, although the more stringent CARB regime was technically superseded when the United States ratified and implemented the amended Annex VI, the possible declaration of various U.S. coastal waters as Emissions Control Areas may in turn bring U.S. emissions standards into line with the new CARB regulations, which would cause us to incur further costs.

## Environmental Regulation – Other Environmental Initiatives

In July 2003, in response to the Prestige oil spill in November 2002, the European Union adopted regulations that accelerate the IMO single hull tanker phase-out timetable. The European Union is also considering legislation that will affect the liability of owners for oil pollution. It is difficult to predict what legislation, if any may be promulgated by the European Union or any other country or authority.

Although the United States is not a party thereto, many countries have ratified and follow the liability scheme adopted by the IMO and set out in the International Convention of Civil Liability for Oil Pollution Damage, or the CLC, and the Convention for the Establishment of an International Fund for Oil Pollution of 1971, as amended. Under these conventions and depending on whether the country in which the damage results is a party to the 1992 Protocol to the CLC, a vessel's registered owner is strictly liable for pollution damage caused on the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. The liability limits in the countries that have ratified this Protocol are, currently, approximately \$6.6 million plus approximately \$929 per gross registered ton above 5,000 gross tons with an approximate maximum, for vessels over 140,000 gross tons, of \$132.2 million per vessel. As the CLC calculates liability in terms of a basket of currencies, these figures are based on currency exchange rates as of March 12, 2009. The right to limit liability is forfeited under the CLC where the spill is caused by the owner's actual fault or privacy and, under the 1992 Protocol, where the spill is caused by the owner's intentional or reckless conduct. Vessels trading to contracting states must provide evidence of insurance covering the limited

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 the CLC.

At the international level, the IMO adopted the International Convention for the Control and Management of Ships' Ballast Water and Sediments in February 2004, or the BWM Convention. The BWM 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 member states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. To date, there has not been sufficient adoption of this standard for it to take force.

If the mid-ocean exchange of ballast water is made mandatory throughout the United States or at the international level, or if water treatment requirements are implemented, 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 the business.

Also at the international level, the IMO International Convention on Civil Liability for Bunker Oil Pollution Damage, 2001 was adopted. This convention was adopted in March 2001 to ensure that adequate, prompt, and effective compensation is available to persons who suffer damage caused by spills of oil, when carried as fuel in ships' bunkers and became effective in November 2008.

This convention applies to damage caused on the territory, including the territorial sea, and in exclusive economic zones of States Parties and provides a free-standing instrument covering pollution damage only.

As with the CLC upon which this convention is modelled, a key requirement in this convention is the need for the registered owner of a vessel to maintain compulsory insurance cover.

Another key provision is the requirement for direct action - this would allow a claim for compensation for pollution damage to be brought directly against an insurer. This convention requires ships over 1,000 gross tonnage to maintain insurance or other financial security, such as the guarantee of a bank or similar financial institution, to cover the liability of the registered owner for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime, but in all cases, not exceeding an amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims, 1976, as amended.

#### Greenhouse Gas Regulation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change, or the Kyoto Protocol, entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of certain gases, generally referred to as greenhouse gases, which are suspected of contributing to global warming. Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol. However, the European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from vessels. In the United States, the Attorneys General from 16 states and a coalition of environmental groups in April 2008 filed a petition for a writ of mandamus, or petition, with the DC Circuit Court of Appeals, or the DC Circuit, to request an order requiring the EPA to regulate greenhouse gas emissions from ocean-going vessels under the Clean Air Act. Although the DC Circuit denied the petition in June 2008, any future passage of climate control legislation or other regulatory initiatives by the IMO, European Union or individual countries where we operate that restrict emissions of greenhouse gases could entail financial impacts on our operations that we cannot predict with certainty at this time.

#### Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the U.S. Maritime Transportation Security Act of 2002, or the MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect in July 2004 and imposes various

detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facilities Security, or the ISPS Code. We are in compliance with the ISPS Code. Among the various requirements are:

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- on-board installation of automatic information systems, or AIS, to enhance vessel-to-vessel and vessel-to-shore communications;
- on-board installation of vessel security alert systems;
- the development of vessel security plans; and
- compliance with flag state security certification requirements.

#### Inspection by Classification Societies

Every oceangoing vessel must be “classed” by a classification society. The classification society certifies that the vessel is “in class,” signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel’s country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will usually undertake them on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and / or to the regulations of the country concerned.

For maintenance of the class, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

**Annual Surveys.** For oceangoing vessels, annual surveys are conducted for the hull and the machinery, including the electrical plant, and, where applicable, for special equipment classed, at intervals of 12 months from the date of commencement of the class period indicated in the certificate.

**Intermediate Surveys.** Extended annual surveys are referred to as intermediate surveys and typically are conducted two and a half years after commissioning and each class renewal. Intermediate surveys may be carried out on the occasion of the second or third annual survey.

**Special Surveys.** Special surveys, also known as class renewal surveys, are carried out every five years for the vessel’s hull, machinery, including the electrical plant, and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey, the vessel is thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. The classification society may grant a one-year grace period for completion of the special survey. Substantial amounts of funds may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey, a vessel owner has the option of arranging with the classification society for the vessel’s machinery to be on a continuous survey cycle. This process is also referred to as continuous survey machinery. We have made arrangements with the classification societies for most of our vessels to be on a continuous survey cycle for machinery. Hull surveys remain under the above mentioned surveys regime.

Currently our oceangoing vessels are scheduled for intermediate surveys and special surveys as follows:

Intermediate survey		Special survey	
Year	No. of vessels	Year	No. of vessels
2009	7	2009	3
2010	2	2010	3
2011	1	2011	6
2012	4	2012	4
2013	1	2013	0

Note: Maximum range period date has been considered.

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

Most oceangoing vessels are also drydocked every 30 to 36 months for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a “recommendation” which must be rectified by the vessel owner within prescribed time limits.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as “in class” by a classification society which is a member of the International Association of Classification Societies. All our oceangoing vessels are certified as being “in class.”

#### Risk of Loss and Liability Insurance

##### General

The operation of any cargo vessel includes risks such as mechanical failure, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade.

We believe that we maintain insurance coverage against various casualty and liability risks associated with our business that we consider to be adequate based on industry standards and the value of our fleet, including hull and machinery and war risk insurance, loss of hire insurance at certain times for certain vessels, protection and indemnity insurance against liabilities to employees and third parties for injury, damage or pollution, strike covers for certain vessels and other customary insurance. While we believe that our present insurance coverage is adequate, we cannot guarantee that all risks will be insured, that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates or at all.

##### Hull and Machinery and War Risk Insurance

We maintain marine hull and machinery and war risk insurance, which includes the risk of actual or constructive total loss, for our wholly-owned vessels. At times, we also obtain for part of our fleet increased value coverage and additional freight insurance during periods of improved market rates, where applicable. This increased value coverage and additional freight coverage entitles us, in the event of total loss of a vessel, to some recovery for amounts not otherwise recoverable under the hull and machinery policy. When we obtain these additional insurances, our vessels will each be covered for at least their fair market value, subject to applicable deductibles (and some may include limitations on partial loss). We cannot assure you, however, that we will obtain this additional coverage on the same

or commercially reasonable terms, or at all, in the future.

#### Loss of Hire

We maintain loss of hire insurance at certain times for certain vessels. Loss of hire insurance covers lost earnings resulting from unforeseen incidents or breakdowns that are covered by the vessel's hull and machinery insurance and result in loss of time to the vessel. Although loss of hire insurance will cover up to ninety days of lost earnings, we must bear the applicable deductibles which

generally range between the first 14 to 30 days of lost earnings. We intend to renew these insurance policies or replace them with other similar coverage if rates comparable to those on our present policies remain available. There can be no assurance that we will be able to renew these policies at comparable rates or at all. Future rates will depend upon, among other things, our claims history and prevailing market rates.

#### Strike Insurance

Some of our vessels are covered for loss of time due to strikes (shore and on board). This insurance is taken with the strike club which also insures the loss of hire deductibles in some of our vessels. There can be no assurance that we will be able to renew these policies at comparable rates or at all.

#### Protection and Indemnity Insurance

Protection and indemnity insurance covers our legal liability for our shipping activities. This includes the legal liability and other related expenses of injury or death of crew, passengers and other third parties, loss or damage to cargo, fines and other penalties imposed by customs or other authorities, claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances and salvage, towing and other related costs, wreck removal and other risks. Coverage is limited for vessels in our Ocean Business to approximately \$4.25 billion with the exception of oil pollution liability, which is limited to \$1.0 billion per vessel per incident. Vessels in our River Business have lower amounts of coverage.

This protection and indemnity insurance coverage is provided by protection and indemnity associations, or P&I Clubs, which are non-profit mutual assurance associations made up of members who must be either ship owners or ship managers. The members are both the insured parties and the providers of capital. The P&I Clubs in which our vessels are entered are currently members of the International Group of P&I Associations, or the International Group and are reinsured themselves and through the International Group in Lloyds of London and other first class reinsurance markets. We may be subject to calls based on each Club's yearly results. Similarly, the same P&I Clubs provide freight demurrage and defense insurance which, subject to applicable deductibles, covers all legal expenses in case of disputes, arbitrations and other proceedings related to our oceangoing vessels.

#### Legal Proceedings

Our Brazilian subsidiary UP Offshore Apoio Maritimo Ltda., or UP Apoio, was involved in a customs dispute with the Brazilian Customs Tax Authorities over the alleged infringement of customs regulations by the UP Diamante in October 2007. The Customs Authority claimed that when the UP Diamante docked to the CSO Deep Blue (a vessel not owned by us) to transfer certain equipment as part of its employment instructions under its charter with Petrobras, the UP Diamante did not comply with certain regulations applicable to the docking of vessels when one of them is destined for a foreign country. As a result, the Brazilian Customs Tax Authority commenced an administrative proceeding of which UP Apoio was notified in November 24, 2007, and sought to impose the maximum Customs penalty, which corresponded to the confiscation, or perdimento, of the vessel UP Diamante in favor of the Brazilian Federal Government.

On December 21, 2007 UP Apoio filed an administrative defense stating that: (i) the legal position taken by Customs Authority was not applicable to the UP Diamante since the "perdimento" is only applicable to vessels coming from or going to abroad, and not to vessels engaged in cabotage voyages as was the UP Diamante; (ii) UP Diamante did not violate the Customs Regulation Code because (a) there is no provision related to the transfer of equipment when one of the vessels is going abroad but the other is not and (b) none of the vessels involved was coming from or going abroad; (iii) confiscation could not be imposed on a vessel owned by UP Apoio because at the time of the alleged infringement the UP Diamante was on hire and under charter to Petróleo Brasileiro S.A., or Petrobras, and consequently under the control of Petrobras and not of UP Apoio; (iv) the imposition of confiscation violated the

principles of proportionality, reasonability and non-confiscation; and (v) confiscation was not applicable because under Brazilian Tax Code, when in case of doubt, the applicable law should be interpreted in favor of the taxpayer, and in this case the report issued by the Brazilian Customs Authorities recognized the existence of doubt concerning the applicability of the corresponding section of the Customs Regulation.

On September 25, 2008 the Customs proceedings, in which Brazilian Customs Tax Authorities were imposing a *perdimento* of the UP Diamante, were successfully concluded when a final decision was issued by Brazilian Tax Authorities determining that the UP Diamante had in fact not infringed any custom regulation and ordered the cancellation of the tax assessment brought up against UP Apoio. Therefore, the tax assessment was extinguished with no liability to UP Apoio, and the UP Diamante was released from any kind of legal or Customs restrictions.

On September 21, 2005, the local Customs Authority of Ciudad del Este, Paraguay issued a finding that certain UABL entities owe taxes to that authority in the amount of \$2.2 million, together with a fine for non-payment of the taxes in the same amount, in respect of certain operations of our River Business for the prior three-year period. This matter was referred to the Central Customs Authority of Paraguay, or the Paraguay Customs Authority. We believed that this finding was erroneous and UABL has formally replied to the Paraguay Customs Authority contesting all of the allegations upon which the finding was based. After review of the entire operations for the claimed period, the Paraguayan Central Tax Authorities, asserting their jurisdiction over the matter, confirmed that the UABL entities did pay their taxes on the claimed period, but held a dissenting view on a third issue (the tax base used by the UABL entities to calculate the applicable withholding tax). Finally, the primary case was appealed by the UABL entities before the Tax and Administrative Court, and when summoned, the Paraguayan Tax Authorities filed an admission, upon which the Court on November 24, 2006, confirmed that the UABL entities were not liable for the first two issues. Nevertheless, the third issue continued, and through a resolution which was provided to UABL on October 13, 2006, the Paraguayan Undersecretary for Taxation has confirmed that, in his opinion, UABL was liable for a total of approximately \$0.5 million and has applied a fine of 100% of this amount. UABL have entered a plea with the respective court contending the interpretation on the third issue where it claims to be equally not liable. On October 19, 2007, we presented a report by an expert which is highly favourable for our position. All court proceedings on the case are over, and it is expected that the Tax and Administrative Court issues its finding by mid 2009. We have been advised by UABL's counsel in the case that there is only a remote possibility that a judicial court would find UABL liable for any of these taxes or fines.

On November 3, 2006 and April 25, 2007, the Bolivian Tax Authority (“Departamento de Inteligencia Fiscal de la Gerencia Nacional de Fiscalización”) issued a notice in the Bolivian press advising that UABL International S.A. (a Panamanian subsidiary of the Company) would owe taxes to that authority. On June 18, 2007, our legal counsel in Bolivia submitted points of defense to the Bolivian tax authorities. On August 27, 2007 the Bolivian tax authorities gave notice of a resolution determining the taxes (value added tax, transaction tax and income tax) that UABL International S.A. would owe to them in the amount of approximately \$6.1 million (including interest and fines). On October 10, 2007, our legal counsel in Bolivia gave notice to the Bolivian tax authorities of the lawsuit commenced by UABL International S.A. to refute the resolution above mentioned. On August 1, 2008, UABL International SA was served with a notice informing that the Bolivian Tax Authorities had replied to the lawsuit started by us. On August 22, 2008 a hearing and judicial inspection took place at Puerto Quijano, Bolivia. On August 30, 2008 both parties submitted their arguments to the judge, completing this part of the case. The parties now await the decision by the court. On the other hand, on June 26, 2008, the same Bolivian court ordered a preemptive embargo against all barges owned by UABL International S.A. that may be registered in the International Bolivian Registry of Ships, or RIBB. According to Company's local counsel this preemptive embargo under Bolivian law has no effect over the Company's right to use its assets nor does it have any implication over the final decision of the court, the substance of the matter and in this case it is ineffective since UABL International S.A. does not have any assets owned by it registered in the RIBB. Moreover, UABL International SA had challenged the judge's decision to place the embargo, which has been under revision by a higher Court since the lower court reconfirmed the embargo on November 15, 2008. We have been advised by our local counsel that there is only a remote possibility that UABL International S.A. would finally be found liable for any of these taxes or fines and / or that these proceedings will have financial material adverse impact on the financial position or results of the Company.

Dividend Policy

The payment of dividends is in the discretion of our board of directors. We have not paid a dividend to date, and we anticipate retaining most of our future earnings, if any, for use in our operations and the expansion of our business. Any determination as to dividend policy will be made by our board of directors and will depend on a number of factors, including the requirements of Bahamian

law, our future earnings, capital requirements, financial condition and future prospects and such other factors as our board of directors may deem relevant. Bahamian law generally prohibits the payment of dividends other than from surplus, when a company is insolvent or if the payment of the dividend would render the company insolvent.

Our ability to pay dividends is restricted by the Notes, which we issued in 2004. In addition, we may incur expenses or liabilities, including extraordinary expenses, which could include costs of claims and related litigation expenses, or be subject to other circumstances in the future that reduce or eliminate the amount of cash that we have available for distribution as dividends or for which our board of directors may determine requires the establishment of reserves. The payment of dividends is not guaranteed or assured and may be discontinued at any time at the discretion of our board of directors. Because we are a holding company with no material assets other than the stock of our subsidiaries, our ability to pay dividends is dependent upon the earnings and cash flow of our subsidiaries and their ability to pay dividends to us. If there is a substantial decline in any of the markets in which we participate, our earnings will be negatively affected, thereby limiting our ability to pay dividends.

### C. ORGANIZATIONAL STRUCTURE

Ultrapetrol (Bahamas) Limited is a company organized and registered as a Bahamas Corporation since December 1997.

Ultrapetrol (Bahamas) Limited has ownership in the following companies:

COMPANY NAME	INCORPORATION JURISDICTION
Ultrapetrol (Bahamas) Limited	Bahamas
- 100% of Kattegat Shipping Inc.	Panama
- 100% of Avemar Holdings (Bahamas) Ltd.	Bahamas
- 100% of Mansan S.A.	Uruguay
- 100% of Tuebrook Holdings Inc.	Panama
- 100% of Wallasey Shipping Inc.	Panama
- 100% of Hallandale Comercial Corp.	Panama
- 100% of Moorfields Trading Inc.	Panama
- 33.3% of Monarch Classic Cruises S.A.	Marshall Islands
- 100% of Stanyan Shipping Inc.	Panama
- 100% of Lowrie Shipping Inc.	Panama
- 100% of Lowrie Shipping LLC	Delaware, USA
- 100% of Angus Shipping LLC	Marshall Islands
- 100% of Gentry Shipping Inc.	Panama
- 100% of Foxtrot Trading Inc.	Panama
- 100% of Braddock Shipping Inc.	Panama
- 100% of Massena Port S.A.	Uruguay
- 100% of Dampierre Holdings Spain S.L.	Spain
- 99% of Oceanpar S.A.	Paraguay
- 7% of Ultrapetrol S.A.	Argentina
- 50% of Parfina S.A.	Paraguay
- 93% of Ultrapetrol S.A.	Argentina
- 100% of Internationale Maritime S.A.	Bahamas
- 100% of Parkwood Commercial Corp.	Panama
- 100% of Princely International Finance Corp.	Panama
- 100% of Majestic Maritime Ltd.	Bahamas
- 100% of Baldwin Maritime Inc.	Panama

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- 100% of Corporación de Navegación Mundial S.A.	Chile
- 49% of Marítima SIPSA S.A.	Chile
- 50% of Parfina S.A.	Paraguay
- 100% of Danube Maritime Inc.	Panama
- 100% of General Ventures Inc.	Liberia
- 100% of Imperial Maritime Ltd.	Bahamas
- 100% of Imperial Maritime Ltd. (Bahamas) Inc.	Panama
- 100% of Fulton Shipping Inc.	Panama

COMPANY NAME	INCORPORATION JURISDICTION
- 100% of Brinkley Shipping Inc.	Panama
- 100% of Pelorus Maritime Inc.	Panama
- 100% of Panpetrol Shipping S.A.	Panama
- 100% of Kingly Shipping Ltd.	Bahamas
- 100% of Monarch Shipping Ltd.	Bahamas
- 100% of Noble Shipping Ltd.	Bahamas
- 1% of Oceanpar S.A.	Paraguay
- 100% of Oceanview Maritime Inc.	Panama
- 100% of Regal International Investments S.A.	Panama
- 100% of Bayham Investments S.A.	Panama
- 100% of Draco Investments S.A.	Panama
- 100% of Cavalier Shipping Inc.	Panama
- 100% of Riverview Commercial Corp.	Panama
- 100% of Sovereign Maritime Ltd.	Bahamas
- 100% of Tipton Marine Inc.	Panama
- 100% of Ultrapetrol International S.A.	Panama
- 100% of Ultrapetrol de Venezuela C.A.	Venezuela
- 100% of Stately Shipping Ltd.	Bahamas
- 100% of Blue Monarch Shipping Inc.	Panama
- 100% of Stanmore Shipping Inc.	Panama
- 94.45% of UP Offshore (Bahamas) Ltd.	Bahamas
- 100% of UP Offshore (Panama) S.A.	Panama
- 100% of Castlestree Shipping LLC	Delaware, USA
- 100% of Packet Maritime Inc.	Panama
- 100% of Padow Shipping Inc.	Panama
- 100% of Pampero Navigation Inc.	Panama
- 100% of UP Offshore (UK) Ltd.	United Kingdom
- 100% of Ingatestone Holdings Inc.	Panama
- 100% of Bayshore Shipping Inc.	Panama
- 100% of Gracebay Shipping Inc.	Panama
- 100% of Springwater Shipping Inc.	Panama
- 100% Woodrow Shipping Inc.	Panama
- 100% of UP Offshore Uruguay S.A.	Uruguay
- 99% of Agriex Agenciamentos, Afretamentos e Apoio Maritimo Ltda.	Brazil
- 99.99% of UP Offshore Apoio Maritimo Ltda.	Brazil
- 100% of Topazio Shipping LLC	Delaware, USA
- 100% of UP Offshore Apoio Maritimo (Panama) Inc.	Panama
- 1% of Agriex Agenciamentos, Afretamentos e Apoio Maritimo Ltda.	Brazil
- 0.01% of UP Offshore Apoio Maritimo Ltda.	Brazil
- 100% of UP Offshore (Holdings) Ltd.	Bahamas
- 100% of UP River (Holdings) Ltd.	Bahamas
- 50% of UABL Limited	Bahamas
- 100% of UP River Terminals (Panama) S.A.	Panama
- 50% of UABL Terminals Ltd.	Bahamas
- 100% of UABL Terminals (Paraguay) S.A.	Panama

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- 50% of Obras Terminales y Servicios S.A.	Paraguay
- 50% of Puertos del Sur S.A.	Paraguay
- 100% of UPB (Panama) Inc.	Panama
- 50% of UABL Terminals Ltd.	Bahamas
- 50% of UABL Limited	Bahamas
- 100% of Arlene Investment Inc.	Panama
- 1% of Compañía Naviera del Magdalena S.A.	Colombia
- 100% of Blueroad Finance Inc.	Panama
- 100% of Upper Paraguayan Ventures LLC	Louisiana, USA
- 1% of Compañía Naviera del Magdalena S.A.	Colombia
- 100% of Marine Financial Investment Corp.	Panama
- 1% of Compañía Naviera del Magdalena S.A.	Colombia
- 100% of Corydon International S.A.	Uruguay
- 100% of Cedarino S.L.	Spain

COMPANY NAME	INCORPORATION JURISDICTION
- 90% of Parabal S.A.	Paraguay
- 97.5% of Riverpar S.A.	Paraguay
- 99.6% of Sernova S.A.	Argentina
- 97.5% of UABL Paraguay S.A.	Paraguay
- 100% of River Ventures LLC	Delaware, USA
- 96.6% of UABL S.A.	Argentina
- 90% of Yataity S.A.	Paraguay
- 63.3% of Agencia Maritima Argenpar S.A.	Argentina
- 100% of Lonehort S.A.	Uruguay
- 100% of UP River Ltd.	Bahamas
- 100% of UABL International S.A.	Panama
- 96% of Compañia Naviera del Magdalena S.A.	Colombia
- 100% of Thurston Shipping Inc.	Panama
- 95% of Compañía Paraguaya de Transporte Fluvial	Paraguay
S.A.	
- 10% of Parabal S.A.	Paraguay
- 2.5% of Riverpar S.A.	Paraguay
- 0.4% of Sernova S.A.	Argentina
- 2.5% of UABL Paraguay S.A.	Paraguay
- 3.4% of UABL S.A.	Argentina
- 36.7% of Agencia Maritima Argenpar S.A.	Argentina
- 10% of Yataity S.A.	Paraguay
- 1% of Compañia Naviera del Magdalena S.A.	Colombia
- 20% Yvy Pora Fertilizantes S.A.	Paraguay
- 100% of UABL Barges (Panama) Inc.	Panama
- 80% of Yvy Pora Fertilizantes S.A.	Paraguay
- 100% of UABL S.A.	Panama
- 5% of Compañía Paraguaya de Transporte Fluvial S.A.	Paraguay
- 100% of Eastham Barges Inc.	Liberia
- 100% of Dingle Barges Inc.	Liberia
- 100% of Ravenscroft Shipping (Bahamas) S.A.	Bahamas
- 100% of Ravenscroft Ship Management Ltd.	Bahamas
- 100% of Ravenscroft Ship Management Ltd.	United Kingdom
- 100% of Zulia Shipping Inc.	Panama
- 100% of Zulia Ship Management Ltd.	Bahamas
- 100% of Tecnical Services S.A.	Uruguay
- 100% of Ravenscroft Holdings Inc.	Florida, USA
- 100% of Ravenscroft Ship Management Inc.	Florida, USA
- 100% of Elysian Ship Management Inc.	Florida, USA
- 100% of Ship Management Services Inc.	Florida, USA
- 100% of Ship Management and Commercial Services Ltd.	Bahamas
- 100% of Elysian Ship Management Ltd.	Bahamas

#### D. PROPERTY, PLANT, AND EQUIPMENT

Ravenscroft is headquartered in our own 16,007 square foot building located at 3251 Ponce de Leon Boulevard, Coral Gables, Florida, United States of America.

In addition we own a repair facility and dry dock at Pueblo Esther, Argentina, a shipyard under construction in Punta Alvear, Argentina, and through 50% joint venture participations, two grain loading ports in Paraguay. We also own land large enough for the construction of two further terminals in Argentina. Finally, we rent offices in Argentina, Brazil, Paraguay and the United Kingdom and a shipyard in Ramallo, Argentina.

ITEM 4A – UNRESOLVED STAFF COMMENTS

None.

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## ITEM 5 – OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with the information included under the caption “Selected Financial Data,” our historical consolidated financial statements and their notes included elsewhere in this annual report. This discussion contains forward-looking statements. For a discussion of the accuracy of these statements please refer to the section of this report titled “Cautionary Statement Regarding Forward Looking Statements” that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in the section entitled “Risk Factors” in Item 3.D of this report and elsewhere in this annual report.

### A. OPERATING RESULTS

#### Our Company

We are an industrial shipping company serving the marine transportation needs of clients in the markets on which we focus. We serve the shipping markets for grain, forest products, minerals, crude oil, petroleum, and refined petroleum products, as well as the offshore oil platform supply market through our operations in the following three segments of the marine transportation industry.

Our River Business, with 591 barges and 29 pushboats, is the largest owner and operator of river barges and pushboats that transport dry bulk and liquid cargos through the Hidrovia Region of South America, a large region with growing agricultural, forest and mineral related exports. This region is crossed by navigable rivers that flow through Argentina, Bolivia, Brazil, Paraguay and Uruguay to ports serviced by ocean export vessels. These countries are estimated to account for approximately 48% of world soybean production in 2009, from 30% in 1995.

Our Offshore Supply Business owns and operates vessels that provide critical logistical and transportation services for offshore petroleum exploration and production companies, in the North Sea and the coastal waters of Brazil. Our Offshore Supply Business fleet currently consists of proprietarily designed, technologically advanced platform supply vessels, or PSVs. We have five PSVs currently in operation and seven under construction. One PSV is under construction in Brazil with expected delivery in the second quarter 2009. In addition, we contracted with a shipyard in India to construct four PSVs with deliveries commencing in 2009, and with another shipyard in China to construct two PSVs for deliveries in 2009.

Our Ocean Business operates ten oceangoing vessels, including four product tankers that we employ in the South American coastal trade where we have preferential rights and customer relationships, three Suezmax / Oil-Bulk-Ore, or Suezmax OBO, vessels, one Capesize vessel, one Oceangoing Pushboat, and one inland tank barge. Our Ocean Business fleet has an aggregate capacity of approximately 745,000 dwt, and our three Suezmax OBOs are capable of carrying either dry bulk or liquid cargos, providing flexibility as dynamics change between these market sectors.

We decided to discontinue the operations of our Passenger Business in December 2008. In line with this decision, we have laid up our only remaining passenger vessel, the Blue Monarch, and placed her in the market for sale.

Our business strategy is to continue to operate as a diversified marine transportation company with an aim to maximize our growth and profitability while limiting our exposure to the cyclical behavior of individual sectors of the transportation industry.

#### Developments in 2008

On January 15, 2008, we entered into a forward currency agreement with DVB AG to sell £0.5 million per month between January and December 2008 (both inclusive) at an average rate of \$1.945 per £ to cover part of our currency

exposure on our operations in the North Sea related to our Offshore Supply Business.

On January 22, 2008, we entered into a cleared Forward Freight Agreement (“FFA”) contract whereby a subsidiary of ours contracted via BNP Paribas Commodity Futures Ltd. (“BNP”) with London Clearing House (“LCH”) to charge LCH the average time charter rate for the 4 Capesize Time Charter Routes (“C4TC”) for a total of 60 days (29 days in February 2008 and 31 days in March

2008) in exchange for a fixed rate of \$94,000 (ninety four thousand U.S. dollars) per day. Through these FFAs we had partially offset some of the FFA positions previously sold for the same dates.

On January 25, 2008, we entered into a 4-year term secured loan with Banco BICE as post-delivery financing of the Princess Marisol we had agreed on October 2007.

On January 29, 2008, we drew down \$25.0 million under the BICE secured term loan agreement. The proceeds of the loan were fully utilized to repay the outstanding balance of the revolving non-secured credit agreement with Banco BICE. Since then, the revolving credit line has a limit of \$10.0 million.

On February 5, 2008, we entered into a purchase agreement to acquire 18 Mississippi barges in the United States of America for a total purchase price of \$2.4 million. The barges were paid for and delivered to us in USA on February 19, 2008.

On February 21, 2008, we entered into a purchase agreement to acquire a 7,200 HP pushboat, the M/V Harry Waddington, for a total purchase price of \$4.8 million. The pushboat was paid for and delivered to us in USA on March 3, 2008.

On February 26, 2008, we paid \$10.5 million corresponding to the first 20% installment under the building contracts of the two PSVs under construction in China.

On March 14, 2008, we entered into an Over The Counter, or OTC, FFA contract whereby a subsidiary of ours contracted with Cetrappa Suresnes SNC, or Cetrappa, a subsidiary of Louis Dreyfus Armateurs, to pay the average time charter rate for the C4TC for a total of 182.5 days (50% of every calendar month from January 2009 to December 2009 both inclusive) in exchange for a fixed rate of \$90,000 (ninety thousand U.S. dollars) per day. This FFA is an OTC contract, has no margin requirements and bears a higher counterparty risk than a cleared FFA. If the counterparty fails to meet its obligation under the FFA, the Company could suffer losses on the contract, which could adversely affect the Company's financial condition and results of operations. Please see section headed "Factors Affecting Our Operations—Forward Freight Agreements (FFAs)" below for a discussion of counterparty risk in OTC FFAs.

On March 17, 2008, we announced that our Board had authorized a share repurchase program which covered up to \$50.0 million of our common stock up to September 30, 2008 (the "Share Repurchase Program"). The program does not require the company to purchase any specific number or amount of shares and may be suspended or reinstated at any time at the company's discretion and without notice.

On March 19, 2008, we entered into a shipbuilding contract with a shipyard in Argentina to construct the hull of an 8,325 BHP pushboat for our River fleet that will be equipped with three of the 25 heavy fuel engines included in our re-engining and re-powering program, or RERP, with expected delivery in the second quarter of 2009. The cost of the construction of the hull of this pushboat is approximately \$2.0 million.

On March 27, 2008 we entered into an OTC FFA contract whereby a subsidiary of ours contracted with Bunge S.A. to pay the average time charter rate for the C4TC for a total of 182.5 days (50% of every calendar month from January 2009 to December 2009 both inclusive) in exchange for a fixed rate of \$90,500 (ninety thousand and five hundred U.S. dollars) per day.

On March 27, 2008, we entered into a purchase agreement to acquire 27 Mississippi barges and a 3,800 BHP pushboat, the M/V Joey C in the United States of America for a total purchase price of \$5.7 million. All of the barges and the pushboat were paid for and delivered to us in USA on April 1, 2008.

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On March 28, 2008, we entered into a purchase agreement to acquire a 7,200 BHP pushboat, the M/V Bob Blocker for a total purchase price of \$4.8 million. The pushboat was paid for and delivered to us in USA on April 21, 2008.

On April 1, 2008, we received in the Hidrovia the 30 Mississippi barges and the 7,200 BHP pushboat (M/V Harry Waddington) previously acquired in the United States of America between September 26, 2007 and February 21, 2008.

On April 6, 2008, we entered into a 3-year bareboat charter for an 11,299 dwt, 2006-built product tanker, the M/T Austral, which we currently employ in the South American coastal trade.

On April 21, 2008, we entered into an OTC FFA contract whereby a subsidiary of ours contracted with Bunge S.A. to pay the average time charter rate for the 4 Capesize Time Charter Routes (“C4TC”) for a total of 182.5 days (50% of every calendar month from January 2009 to December 2009 both inclusive) in exchange for a fixed rate of \$95,000 (ninety five thousand U.S. dollars) per day.

On April 29, 2008, we paid \$8.8 million corresponding to the second 20% installment due under the ship building contracts for two of our four PSVs under construction in India.

On May 16, 2008, we entered into a cleared FFA contract whereby a subsidiary of ours contracted via BNP with LCH to charge LCH the average time charter rate for the C4TC for a total of 90 days (15 days per month from July 2008 up to December 2008) in exchange for a fixed rate of \$170,000 (one hundred and seventy thousand U.S. dollars) per day. Through these FFAs we partially offset some of the FFA positions previously sold by our subsidiary for the second half of 2008. Simultaneously, we entered into an OTC FFA contract whereby a subsidiary of ours contracted with Noble Chartering Inc. (“Noble”) to pay the average time charter rate for the C4TC for a total of 90 days (15 days per month from July 2008 up to December 2008) in exchange for a fixed rate of \$168,000 (one hundred and sixty eight thousand U.S. dollars) per day.

On May 19, 2008, we entered into a cleared FFA contract whereby a subsidiary of ours contracted via BNP with LCH to charge LCH the average time charter rate for the C4TC for a total of 184 days (every calendar month from July 2008 up to December 2008) in exchange for a fixed rate of \$166,000 (one hundred and sixty six thousand U.S. dollars) per day. Through these FFA we partially offset some of the FFA positions previously sold by our subsidiary for the second half of 2008. Simultaneously, we entered into an OTC FFA contract whereby a subsidiary of ours contracted with Noble to pay the average time charter rate for the C4TC for a total of 184 days (every calendar month from July 2008 up to December 2008) in exchange for a fixed rate of \$165,000 (one hundred and sixty five thousand U.S. dollars) per day.

On May 19, 2008, we entered into two cleared FFA contracts whereby a subsidiary of ours contracted via BNP with LCH to charge LCH the average time charter rate for the C4TC for a total of 60 days in June 2008 in exchange for a fixed average rate of \$194,000 (one hundred and ninety four thousand U.S. dollars) per day. Through these FFAs we partially offset some of the FFA positions previously sold by our subsidiary for June 2008. On May 20, 2008, we entered into an OTC FFA contract whereby a subsidiary of ours contracted with Bunge S.A. to pay the average time charter rate for the C4TC for a total of 30 days in June 2008 in exchange for a fixed rate of \$180,000 (one hundred and eighty thousand U.S. dollars) per day.

On May 20, 2008, we received a \$7.9 million loan from one of our shareholders, SIPSA S.A., which we fully repaid on June 17, 2008.

On May 27, 2008, we received in the Hidrovia the 27 Mississippi barges and two pushboats (M/V Joey C and M/V Bob Blocker) previously acquired in the United States of America on March 27 and March 28, 2008.

On June 24, 2008, we entered into a 12-year secured term loan of up to \$93.6 million with DVB Bank AG and Natixis as co-lenders in respect of pre-delivery and post-delivery financing of the four PSVs under construction in India.

On August 12, 2008, we entered into an Over the Counter Forward Freight Agreement (“OTC FFA”) contract whereby a subsidiary of ours contracted with Bunge S.A. to pay the average time charter rate for the C4TC for a total of 45 days (15 days per month from October to December 2008 both inclusive) in exchange for a fixed rate of \$150,000 (one hundred and fifty thousand U.S. dollars) per day.

On August 13, 2008, we entered into an OTC FFA contract whereby a subsidiary of ours contracted with Noble Chartering Inc. to pay the average time charter rate for the C4TC for a total of 45 days (15 days per month from October to December 2008 both inclusive) in exchange for a fixed rate of \$157,000 (one hundred and fifty seven thousand U.S. dollars) per day.

On August 14, 2008, we entered into an OTC FFA contract whereby a subsidiary of ours contracted with Bunge S.A. to pay the average time charter rate for the C4TC for a total of 365 days (every calendar day from January to December 2010 both inclusive) in exchange for a fixed rate of \$83,000 (eighty three thousand U.S. dollars) per day.

On August 29, 2008, we entered into a forward currency agreement with HSBC to sell £0.5 million per month between September and December 2008 (both inclusive) at an average rate of \$1.821 per £ to cover part of our currency exposure on our operations in the North Sea related to our Offshore Supply Business.

On August 29, 2008, we entered into a forward currency agreement with DVB AG to sell £1.0 million per month between January and April 2009 (both inclusive) at an average rate of \$1.806 per £ to cover part of our currency exposure on our operations in the North Sea related to our Offshore Supply Business.

On September 11, 2008, we entered into a forward currency agreement with Natixis to sell £0.5 million per month between May and December 2009 (both inclusive) at an average rate of \$1.710 per £ to cover part of our currency exposure on our operations in the North Sea related to our Offshore Supply Business.

On September 15, 2008, we signed and subsequently, on September 30, 2008, drew down two 12-year Senior Credit Loan facilities with IFC totaling \$60.0 million, secured by tugs and barges that we own, to partially finance our River Business growth programs. The facilities include a grace period of four years.

On September 19, 2008, we entered into an OTC FFA contract whereby a subsidiary of ours contracted with Bunge S.A. to charge the average time charter rate for the C4TC for a total of 18 days in October 2008 in exchange for paying a fixed rate of \$88,000 (eighty eight thousand U.S. dollars) per day.

On September 24, 2008, we entered into an OTC FFA contract whereby a subsidiary of ours contracted with Navios International Inc. ("Navios") to pay the average time charter rate for the C4TC for a total of 45 days (15 days per month from January to March 2009 both inclusive) in exchange for a fixed rate of \$53,500 (fifty three thousand five hundred U.S. dollars) per day.

On October 2, 2008, we announced that our Board authorized an extension of the share repurchase program until December 31, 2008 retaining the original cumulative dollar limit of \$50.0 million.

On November 3, 2008, we entered into a cleared FFA contract whereby a subsidiary of ours contracted via BNP with LCH to charge LCH the average time charter rate for the C4TC for a total of 15 days per month in November and December 2008 in exchange for a fixed rate of \$9,000 (nine thousand U.S. dollars) per day.

On November 25, 2008, we paid \$10.5 million corresponding to the second 20% installment under the building contracts of the two PSVs under construction in China.

On November 28, 2008, we signed and subsequently on December 15, 2008 drew down a 12-year Senior Credit Loan facility with OPEC Fund for International Development ("OFID") totaling \$15.0 million, secured by tugs and barges that we own, to partially finance our River Business growth programs. The facility includes a grace period of four years.

On December 12, 2008, we paid \$8.8 million corresponding to the second 20% installment under the building contracts of two out of the four PSVs under construction in India.

On December 18, 2008, we decided to discontinue the operations of our Passenger Business. In line with this decision, we have laid up our only remaining passenger vessel, the Blue Monarch, and placed her in the market for sale.

Recent Developments

On January 5, 2009, we announced that the Board authorized an extension of the share repurchase program until March 31, 2009 retaining the original cumulative dollar limit of \$50.0 million. As of December 31, 2008 we had repurchased a total of 3,923,094 of our shares at an average cost of \$4.97 per share for a total cost of \$19.5 million.

On January 21, 2009, we entered into a cleared FFA contract whereby a subsidiary of ours contracted via BNP with LCH to charge LCH the average time charter rate for the C4TC for a total of 15 days per month between January and March 2009 (both inclusive) in exchange for a fixed rate of \$17,500 (seventeen thousand five hundred U.S. dollars) per day.

On January 22, 2009, we entered into a cleared FFA contract whereby a subsidiary of ours contracted via BNP with LCH to charge LCH the average time charter rate for the C4TC for a total of 15 days per month between April and June 2009 (both inclusive) in exchange for a fixed rate of \$23,000 (twenty three thousand U.S. dollars) per day.

On February 6, 2009, we entered into an OTC FFA contract whereby a subsidiary of ours contracted with Bunge S.A. to pay the average time charter rate for the C4TC for a total of 180 days (15 days per month from January to December 2010, both inclusive) in exchange for a fixed rate of \$30,000 (thirty thousand U.S. dollars) per day.

On February 27, 2009, we agreed with Banco BICE to fully and voluntarily prepay all of the outstanding amounts under our \$25.0 million four-year term secured loan agreement we had entered into on January 25, 2008 without any contractual penalty or breakage costs. Therefore, we will pay \$18.8 plus all the interest accrued to discharge the loan completely prior to the end of April 2009.

#### Factors Affecting Our Results of Operations

We organize our business and evaluate performance by the following business segments: the River Business, the Offshore Supply Business and the Ocean Business. In December 2008, we decided to discontinue the operations of our Passenger Business. In line with this decision, we have laid up our only remaining passenger vessel, the Blue Monarch, and placed her in the market for sale. The accounting policies of the reportable segments are the same as those for the consolidated financial statements. We do not have significant inter-segment transactions.

#### Revenues

In our River Business, we contract for the carriage of cargos, in substantially all cases, under contracts of affreightment, or COAs. Most of these COAs currently provide for adjustments to the freight rate based on changes in the price of fuel.

In our Offshore Supply Business, we contract substantially all of our capacity under time charters to charterers in the North Sea and Brazil.

In our Ocean Business, we contract our cargo vessels either on a time charter basis or COA basis. Some of the differences between time charters and COAs are summarized below.

#### Time Charter

- We derive revenue from a daily rate paid for the use of the vessel, and
- the charterer pays for all voyage expenses, including fuel and port charges.

#### Contract of Affreightment (COA)

- We derive revenue from a rate based on tonnage shipped expressed in dollars per metric ton of cargo, and
- we pay for all voyage expenses, including fuel and port charges.



Our ships on time charters generate both lower revenues and lower expenses for us than those under COAs. At comparable price levels both time charters and COAs result in approximately the same operating income, although the operating margin as a percentage of revenues may differ significantly.

Time charter revenues accounted for 57% of the total revenues from our businesses for 2008, and COA revenues accounted for 43%. With respect to COA revenues in 2008, 76% were in respect of repetitive voyages for our regular customers and 24% were in respect of single voyages for occasional customers.

In our River Business, demand for our services is driven by agricultural, mining and petroleum related activities in the Hidrovia Region. Droughts and other adverse weather conditions, such as floods, could result in a decline in production of the agricultural products we transport, which would likely result in a reduction in demand for our services. In 2005, our results of operations were negatively impacted due to the decline in soybean production associated with those years' droughts. Water levels in the upper Paraguay River during half of fourth quarters 2007 and 2008 have also affected our volumes carried mainly out of Corumba. Further, most of the operations in our River Business occur on the Parana and Paraguay Rivers, and any changes adversely affecting navigability of either of these rivers, such as low water levels, could reduce or limit our ability to effectively transport cargo on the rivers.

In our Ocean Business, we employed a significant part of our ocean fleet on time charter to different customers during 2008. During the first nine months of 2008, the international dry bulk freight market maintained average rates significantly higher than those experienced during 2007 and 2006, reaching its highest peak in June 2008. However, between September and December 2008, the market experienced a significant decline.

#### Expenses

Our operating expenses generally include the cost of all vessel management, crewing, spares and stores, insurance, lubricants, repairs and maintenance. Generally, the most significant of these expenses are repairs and maintenance, wages paid to marine personnel, and marine insurance costs. However, there are significant differences in the manner in which these expenses are recognized in the different segments in which we operate.

In addition to the vessel operating expenses, our other primary operating expenses in 2008 included general and administrative expenses related to ship management and administrative functions.

In our River Business, our voyage expenses include port expenses and bunkers as well as charter hire paid to third parties.

In our Offshore Supply Business, voyage expenses include offshore and brokerage commissions paid by us to third parties which provide brokerage services.

Through our River Business, we own a floating drydock and a repair facility for our river fleet at Pueblo Esther, Argentina, a shipyard under construction in Punta Alvear, Argentina, land for the construction of two terminals in Argentina and 50% joint venture participations in two grain loading terminals in Paraguay. UABL also rents offices in Asuncion, Paraguay and Buenos Aires, Argentina and a repair and shipbuilding facility in Ramallo, Argentina.

Through UP Offshore, we hold a lease for office space in Rio de Janeiro, Brazil. In addition, through Ravenscroft, we own a building located at 3251 Ponce de Leon Boulevard, Coral Gables, Florida, United States. We also hold a sublease to an office in Buenos Aires, Argentina and rent an office in the Aberdeen, Scotland.

#### Foreign Currency Transactions

During 2008, 89% of our revenues were denominated in U.S. dollars. Also, for the year ended December 31, 2008, 9% of our revenues were denominated and collected in British pounds and 2% of our revenues were denominated and collected in reais (Brazil). However, 22% of our total revenues were denominated in U.S. dollars but collected in Argentine pesos, Brazilian reais and Paraguayan

guaranies. During 2008 significant amounts of our expenses were denominated in U.S. dollars and 46% of our total out of pocket operating expenses were paid in Argentine Pesos, Brazilian reais and Paraguayan guaranies.

Our operating results, which we report in U.S. dollars, may be affected by fluctuations in the exchange rate between the U.S. dollar and other currencies. For accounting purposes, we use U.S. dollars as our functional currency. Therefore, revenue and expense accounts are translated into U.S. dollars at the average exchange rate prevailing during the month of each transaction.

#### Inflation, Rates of Exchange Variation and Fuel Price Increases

Neither the United States' inflation nor global inflationary trends have had a material impact on our operations, although future inflation may affect our results and certain of our operating expenses (e.g., crewing, insurance and drydocking costs) are subject to fluctuations as a result of market forces. A sudden outburst or a very high level of inflation can have a negative impact on our results.

Inflationary pressures in the South American countries in which we operate may not be compensated by equivalent adjustments in the rate of exchange between the U.S. dollar and the local currencies. On the contrary, the U.S. dollar depreciation or significant revaluation of the local currencies against it has had an incremental effect on the portion of our operating expenses incurred in those local currencies during part of 2008. Please see Foreign Currency Transactions.

In 2006 and thereafter, we have negotiated fuel price adjustment clauses in most of our contracts in the River Business. We may experience however temporary misalignments between the adjustment of fuel in our freight contracts and our fuel purchase agreements (positive or negative) because one may adjust prices on a monthly basis while the other adjusts prices weekly.

In the Offshore Supply Business, the risk of variation of fuel prices under the vessels' current employment is generally borne by the charterers, since the charterers are generally responsible for the supply and cost of fuel.

In our Ocean Business, inflationary pressures on bunker (fuel oil) costs are not expected to have a material effect on our immediate future operations, because our vessels are currently chartered to third parties and it is the charterers' responsibility to pay for fuel. When our ocean vessels are employed under COAs, freight rates for voyage charters are generally sensitive to the price of fuel. However, a sharp rise in bunker prices may have a temporary negative effect on results since freights generally adjust only after prices have settled at a higher level.

#### Seasonality

Each of our businesses has seasonal aspects, which affect their revenues on a quarterly basis. The high season for our River Business is generally between the months of March and September, in connection with the South American harvest and higher river levels. However, growth in the soy pellet manufacturing, minerals and forest industries may help offset some of this seasonality. The Offshore Supply Business operates year-round, particularly off the coast of Brazil, although weather conditions in the North Sea may reduce activity from December to February. In the Ocean Business, demand for oil tankers tends to be strongest during the winter months in the Northern hemisphere. Demand for drybulk transportation tends to be fairly stable throughout the year, with the exceptions of the Chinese New Year in our first quarter and the European summer holiday season in our third quarter, which generally show lower charter rates.



## Results of Operations

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

The following table sets forth certain historical income statement data for the periods indicated derived from our statements of income expressed in thousands of dollars. Operations of our Passenger Business are presented as discontinued operations on a net of tax basis.

	Year Ended December 31,		
	2008	2007	Percent Change
<b>Revenues</b>			
Attributable to River Business	\$ 126,425	\$ 93,940	35%
Attributable to Offshore Supply Business	43,907	41,514	6%
Attributable to Ocean Business	133,243	58,353	128%
Total revenues	303,575	193,807	57%
<b>Voyage expenses</b>			
Attributable to River Business	(66,782)	(42,673)	56%
Attributable to Offshore Supply Business	(1,902)	(1,822)	4%
Attributable to Ocean Business	(6,606)	(2,059)	221%
Total voyage expenses	(75,290)	(46,554)	62%
<b>Running cost</b>			
Attributable to River Business	(37,012)	(26,149)	42%
Attributable to Offshore Supply Business	(16,719)	(13,991)	19%
Attributable to Ocean Business	(35,455)	(17,813)	99%
Total running costs	(89,186)	(57,953)	54%
Amortization of drydocking and intangible assets	(4,367)	(7,385)	-41%
Depreciation of vessels and equipment	(34,253)	(22,883)	50%
Administrative and commercial expenses	(24,396)	(20,355)	20%
Other operating income	6,513	10,944	-40%
Operating profit	82,596	49,621	66%
Financial expense and other financial expenses	(30,542)	(20,440)	49%
Financial Income	1,156	2,916	-60%
Gain (loss) on derivative instruments, net	8,816	(17,801)	--
Investment in affiliates	(442)	(28)	--
Other, net	(558)	(339)	65%
Total other expenses	(21,570)	(35,692)	-40%
Income from continuing operations before income taxes and minority interest	\$ 61,026	\$ 13,929	338%
Income taxes	4,173	(4,832)	--
Minority interest	(1,228)	(739)	66%

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Income from continuing operations	\$	63,971	\$	8,358	665%
Loss from discontinued operations	\$	(16,448)	\$	(3,917)	320%
Net income	\$	47,523	\$	4,441	970%

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Revenues. Total revenues from our River Business increased by 35% from \$93.9 million in 2007 to \$126.4 million in 2008. This \$32.5 million increase is primarily attributable to the fuel adjustment formula in our Contracts of Affreightment, a 6% increase in volumes and an increase in pricing.

Total revenues from our Offshore Supply Business increased by 6% from \$41.5 million in 2007 to \$43.9 million in 2008. This \$2.4 million increase is primarily attributable to a full year of operation of our UP Diamante in 2008, as compared to almost eight months of operation in 2007, to higher average rates obtained by our UP Topazio operating in the North Sea in 2008 as opposed to its operation in Brazil during 2007 and its positioning from Brazil into the North Sea during the fourth quarter of 2007; partially offset by the lesser number of operational days of our vessel UP Esmeralda as a consequence of propulsion damage (while the loss of hire of this vessel is covered by insurance, the amount of this insurance is accounted for under "Other operating income") and slightly lower average earnings of our UP Safira, which is operating under a long term charter in the North Sea.

Total revenues from our Ocean Business increased \$74.8 million, from \$58.4 million in 2007 to \$133.2 million in 2008, or an increase of 128%. This increase is attributable to the higher time charter rates obtained by our three Suezmax OBO vessels in 2008 as compared to 2007 and to a full year of operation of our Capesize vessel Princess Marisol, which was delivered to us in November 2007, coupled with a full year of operations in 2008 of our Product Tankers Alejandrina and Amadeo, delivered in March and August 2007, respectively, to a full year of operation of our Miranda I, which had undergone a conversion to double hull in the second quarter of 2007, and the operations of our bareboat chartered Product Tanker Austral delivered in April 2008; partially offset by the sale of our Aframax vessel, Princess Marina, in September 2007, and by the net effect of settlements of the FFA positions accounted for as cash flow hedges during 2008 that resulted in a decrease in Ocean Business revenues of \$1.5 million.

Voyage expenses. In 2008, voyage expenses of our River Business were \$66.8 million, as compared to \$42.7 million for 2007, an increase of \$24.1 million, or 56%. The increase is mainly attributable to an increase in fuel and port expenses consistent with higher fuel prices and larger volumes of cargo transported.

In 2008, voyage expenses of our Offshore Supply Business were \$1.9 million, as compared to \$1.8 million in 2007. This increase of \$0.1 million, or 4% is primarily attributable to the delivery and commencement of operation of the UP Diamante in May 2007 and to the increase in the brokerage commissions due to the higher average rates obtained by our UP Agua-Marinha and UP Esmeralda, partially offset by lower voyage expenses incurred by our UP Topazio which underwent positioning expenses (mainly bunkers) during the fourth quarter of 2007.

In 2008, voyage expenses of our Ocean Business were \$6.6 million, as compared to \$2.1 million for 2007, an increase of \$4.5 million, or 221%. This increase is primarily attributable to the brokerage commissions paid through the operation of our Capesize vessel Princess Marisol, which only commenced its activity with us in November 2007, to its employment under COA mode during part of in the first, third and fourth quarters of 2008 resulting in the incurrence of port expenses and bunker costs during those periods, to the bareboat charter hire paid for our bareboat chartered Product Tanker Austral delivered to us in April 2008, the higher brokerage commissions on the operations of our Capesize / Suezmax OBO fleet related to their higher time charter earnings, and husbandry expenses of our Miranda I.

Running costs. In 2008, running costs of our River Business were \$37.0 million, as compared to \$26.1 million in 2007, an increase of \$10.9 million, or 42%. This increase is primarily attributable to higher boat and barge operational costs consistent with the increase in volumes carried, the operation of the Otto Candies convoy since March 2007; the addition in August 2007 of 33 barges and one pushboat, the addition, between April and May 2008, of 57 barges and three pushboats acquired in USA, and the overall revaluation during the first three quarters of 2008 of the local currencies against the U.S. dollar.

In 2008, running costs of our Offshore Supply Business were \$16.7 million, as compared to \$14.0 million in 2007, an increase of \$2.7 million, or 19%. This increase is primarily attributable to the commencement of operations of our UP Diamante in May 2007 and an increase in our Brazilian operations expenses primarily attributable to both the appreciation of the Brazilian Real and a general increase in operating and crew costs in Brazil.

In 2008, running costs of our Ocean Business were \$35.5 million, as compared to \$17.8 million in 2007, an increase of \$17.7 million, or 99%. This increase is mainly attributable to the cost of a full year of operations of our Product Tankers Alejandrina and Amadeo and our Capesize vessel Princess Marisol acquired in March, August and November 2007, respectively, and of our Product Tanker Austral in April 2008, coupled with a general increase in running costs of our ocean vessels in 2008.

Amortization of drydocking and intangible assets. Amortization of drydocking and intangible assets decreased by \$3.0 million, or 41%, to \$4.4 million in 2008 as compared to \$7.4 million in 2007. This decrease is primarily attributable to the sale of our Aframax vessel, Princess Marina, in September 2007, and a reduced level of amortization of drydock of our Suezmax OBO vessels and our dry barges.

Depreciation of vessels and equipment. Depreciation increased by \$11.4 million, or 50%, to \$34.3 million in 2008 as compared to \$22.9 million in 2007. This increase is primarily attributable to the entry into operation of our Product Tanker Amadeo in August 2007, and of our Capesize vessel Princess Marisol in November 2007, the additional depreciation associated with the acquisitions of the Otto Candies convoy and 90 Mississippi barges and four pushboats in the United States of America, the delivery by the yard and entry into operation of the UP Diamante in May 2007, the increased value of our Miranda I (which was converted to double hull during the second quarter of 2007), the depreciation associated with machinery added to our yard in Ramallo and the additional depreciation associated with the barge enlargement program and the barges included in the bottom replacement program. This increase is partially offset by the sales of our Aframax vessel Princess Marina on September 2007, and by the reduction in the depreciation charge of our Suezmax OBO vessels.

Administrative and commercial expenses. Administrative and commercial expenses were \$24.4 million in 2008 as compared to \$20.4 million in 2007. This increase of \$4.0 million, or 20% is mainly attributable to an increase in salaries and related charges, as well as to the revaluation of local currencies of some South American countries against U.S. dollar for the first nine months of 2008.

Other operating income. Other operating income was \$6.5 million in 2008 as compared to \$10.9 million in 2007. This decrease of \$4.4 million, or 40% is mainly attributable to the effect of the sale of our Aframax vessel Princess Marina in September 2007, partially offset by increases in other operating income due to insurance proceeds received in connection with damage suffered by a heavy fuel engine upon its arrival in Argentina, and to proceeds related to the delay and loss of hire insurances of our UP Esmeralda, UP Topazio and Amadeo during 2008.

Operating profit. Operating profit for the year 2008 was \$82.6 million, an increase of \$33.0 million, or 66% from the \$49.6 million operating profit in 2007. The increase is mainly attributable to an improved performance of our Ocean Business (a \$39.0 million increase), partially offset by a \$5.9 million decrease in the River Business operating profit from 2007.

Financial expense and other financial expenses. Financial expense increased to \$30.5 million in 2008 as compared to \$20.4 million in 2007, a \$10.1 million or 49% increase. This increase in expenses is mainly attributable to larger average total outstanding debt partially offset by lower average interest rates paid and higher capitalized interest related to our PSVs under construction, and to a \$5.4 million increase in losses due to fluctuations in foreign currencies against the U.S. dollar.

Financial income. Financial income in 2008 decreased by \$1.7 million to \$1.2 million from \$2.9 million in 2007. This decrease is mainly attributable to interest earned on lower cash balances held on average in 2008.

Gain (loss) on derivative instruments, net. Gain on derivative instruments increased to \$8.8 million, from a loss of \$17.8 million in 2007. This increase was primarily attributable to an \$11.7 million non-cash gain on FFAs during the

first quarter of 2008, and to a \$2.4 million non-cash gain on forward sales of foreign currency (British pounds) to partially cover our exposure to movements in foreign exchange rates affecting our Offshore Supply Business, partially offset by a \$5.4 million loss corresponding primarily to the settlements of our FFA positions in the first quarter of 2008.

Minority interest. Minority interest increased by \$0.5 million, or 66%, to \$1.2 million in 2008 as compared to \$0.7 million in 2007. This increase is attributable to higher results of our subsidiary in the Offshore Supply Business where we have a minority partner.

Income taxes. The gain on income taxes in 2008 was \$4.2 million, compared with a charge of \$4.8 million in 2007. The gain in 2008 compared with the 2007 charge principally reflects the reduction in the deferred income tax liability from unrealized foreign currency exchange losses on U.S. dollar-denominated debt of our Brazilian subsidiary in our Offshore Supply Business of \$3.4 million given the devaluation of Brazilian real during the fourth quarter of 2008, and the benefit of income tax losses carry-forward of our operations in Argentina, partially offset by current income tax charges on our River Business operations.

Loss from discontinued operations. Losses from discontinued operations, net of tax, increased by \$12.5 million from \$3.9 million in 2007 to \$16.4 million in 2008. This increase in loss is mainly attributable to the sale of the New Flamenco in October 2007 and to the write-off of \$5.8 million in the carrying value of our Blue Monarch in the fourth quarter of 2008.

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Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

The following table sets forth certain historical income statement data for the periods indicated derived from our statements of income expressed in thousands of dollars. Operations of our Passenger Business are presented as discontinued operations on a net of tax basis.

	Year Ended December 31,		Percent Change
	2007	2006	
<b>Revenues</b>			
Attributable to River Business	\$ 93,940	\$ 79,124	19%
Attributable to Offshore Supply Business	41,514	26,289	58%
Attributable to Ocean Business	58,353	39,202	49%
Total revenues	193,807	144,615	34%
<b>Voyage expenses</b>			
Attributable to River Business	(42,673)	(33,536)	27%
Attributable to Offshore Supply Business	(1,822)	(3,451)	-47%
Attributable to Ocean Business	(2,059)	(602)	242%
Total voyage expenses	(46,554)	(37,589)	24%
<b>Running costs</b>			
Attributable to River Business	(26,149)	(20,595)	27%
Attributable to Offshore Supply Business	(13,991)	(6,264)	123%
Attributable to Ocean Business	(17,813)	(13,788)	29%
Total running costs	(57,953)	(40,647)	43%
Amortization of drydocking and intangible assets	(7,385)	(8,420)	-12%
Depreciation of vessels and equipment	(22,883)	(16,294)	40%
Administrative and commercial expenses	(20,355)	(14,416)	41%
Other operating income (expenses)	10,944	(198)	--
Operating profit	49,621	27,051	83%
Financial expense	(20,440)	(18,921)	8%
Financial loss on extinguishment of debt	--	(1,411)	--
Financial income	2,916	733	298%
Loss on derivative instruments, net	(17,801)	--	--
Investment in affiliates	(28)	588	-105%
Other, net	(339)	859	-139%
Total other expenses	(35,692)	(18,152)	97%
Income from continuing operations before income taxes and minority interest	\$ 13,929	\$ 8,899	57%
Income taxes	(4,832)	(2,101)	130%
Minority interest	(739)	(1,919)	-61%
Income from continuing operations	\$ 8,358	\$ 4,879	71%
Income (loss) from discontinued operations	\$ (3,917)	\$ 5,647	--
Net income	\$ 4,441	\$ 10,526	-58%



Revenues. Total revenues from our River Business increased by 19% from \$79.1 million in 2006 to \$93.9 million in 2007. This increase is primarily attributable to a 16% increase in volumes and an increase in pricing (which includes an additional \$2.0 million of revenues for other services).

Total revenues from our Offshore Supply Business increased from \$26.3 million in 2006 to \$41.5 million in 2007. This increase is primarily attributable to higher time charter rates of our existing PSVs UP Esmeralda and UP Safira, a full year of service of our vessels UP Agua-Marinha and UP Topazio compared to nine and three months, respectively, during 2006, and the operation of our new PSV UP Diamante placed into service in May 2007.

Total revenues from our Ocean Business increased from \$39.2 million in 2006 to \$58.4 million in 2007, or an increase of 49%. This increase is mainly attributable to the beginning of operations of our oil product carriers Alejandrina and Amadeo in March and August 2007, respectively, and of our Capesize vessel Princess Marisol in November 2007, significantly higher charter rates for Princess Katherine, and a lesser number of operational days of our three OBO vessels in 2006 due to the fact that all of them underwent special survey and drydocking in the fourth quarter of 2006, partially offset by the sale of our Aframax vessel Princess Marina in October 2007 (following the accident to her rudder that kept this vessel non operational since June 21, 2007) and a lower number of operational days of our vessels Parana Petrol and Miranda I during 2007 due to the refurbishment works on the former and the double-hull conversion of the latter.

Voyage expenses. In 2007, voyage expenses of our River Business were \$42.7 million, as compared to \$33.5 million for 2006, an increase of \$9.2 million. The increase is mainly attributable to an increase in fuel and port expenses consistent with larger volumes of cargo transported and higher fuel prices.

In 2007, voyage expenses of our Offshore Supply Business were \$1.8 million, as compared to \$3.5 million in 2006. The decrease is primarily attributable to the effect of the bareboat charter paid for our new PSVs UP Esmeralda and UP Safira during the first quarter of 2006, prior to the consolidation of UP Offshore, partially offset by the incurrence of \$0.4 million in expenses primarily related to the relocation of UP Topazio from Brazil, where she was operating, to her deployment in the North Sea. This decrease was partially offset by a larger amount of commercial expenses including brokerage commissions consistent with a larger fleet in operation in 2007.

In 2007, voyage expenses of our Ocean Business were \$2.1 million, as compared to \$0.6 million for 2006. The increase is primarily attributable to the beginning of operations of our oil product carriers Alejandrina (which was positioned in South America under a COA) and Amadeo (which was positioned in South America in ballast) in March and August 2007, respectively, and of our Capesize vessel Princess Marisol in November 2007, which operated for the last 55 days of 2007 under a COA where we paid for all voyage expenses. This increase was partially offset by the decrease in brokerage commissions of our Princess Nadia, Princess Katherine and Princess Susana and by a lower number of operational days of our Miranda I due to her double hull conversion during the second quarter of 2007.

Running costs. In 2007, running costs of our River Business were \$26.1 million, as compared to \$20.6 million in 2006, an increase of \$5.5 million. This increase is primarily attributable to higher boat and barge operational costs consistent with the increase in volumes carried; the operation of the Otto Candies convoy since March 2007; the addition in August 2007 of 33 barges and one pushboat acquired from USA and the revaluation of the local Hidrovia Region currencies against the US Dollar.

In 2007, running costs of our Offshore Supply Business were \$14.0 million, as compared to \$6.3 million in 2006. This increase is mainly attributable to the running cost incurred with the new PSV UP Diamante delivered to us in May 2007, as well as a full year operation of our UP Agua-Marinha and UP Topazio compared to nine and three months, respectively, in 2006, and the consolidation of UP Offshore as from the second quarter of 2006.

In 2007, running costs of our Ocean Business were \$17.8 million, as compared to \$13.8 million in 2006, an increase of 29%. This increase is mainly attributable to the beginning of operations of our oil product carriers Amadeo and Alejandrina in the first and third quarter 2007 respectively and our Capesize vessel Princess Marisol, partially offset by the sale of our Aframax vessel Princess

Marina and a lower number of operational days of our Parana Petrol due to the refurbishment works she underwent since the second half of 2007.

Amortization of drydocking and intangible assets. Amortization of drydocking and intangible assets decreased by \$1.0 million, or 12%, to \$7.4 million in 2007 as compared to \$8.4 million in 2006. The decrease is primarily attributable to the run off, during 2007, of the depreciation schedule of certain dry dock expenses of Princess Marina (prior to her sale) and Parana Petrol, partially offset by the increase in the amortization of dry dock expense on our three Suezmax OBO vessels which were drydocked at the end of 2006 and to the amortization of intangible assets related to the purchase of Ravenscroft as our subsidiary for the full year 2007 as compared to nine months in 2006.

Depreciation of vessels and equipment. Depreciation increased by \$6.6 million, or 40%, to \$22.9 million in 2007 as compared to \$16.3 million in 2006. This increase is primarily attributable to the effect of the consolidation of UP Offshore as our subsidiary from the second quarter of 2006 as opposed to a full year's depreciation in 2007, the additional depreciation associated with the acquisition of the Princess Marisol in the fourth quarter of 2007, the entry into operations of our oil product carriers Amadeo and Alejandrina in the first and third quarter of 2007 respectively, the delivery by the yard and entry into operation of the UP Diamante in May 2007, a full year of depreciation of our vessels UP Agua-Marinha, Blue Monarch, and UP Topazio, the increased value of our vessel Miranda I (which was converted to double hull during the second quarter of 2007), as well as with the acquisition of the Otto Candies convoy in March 2007 and the 33 barges and one pushboat in the US in the second quarter 2007.

Administrative and commercial expenses. Administrative and commercial expenses were \$20.4 million in 2007 as compared to \$14.4 million in 2006. This increase of \$6.0 million is attributable mainly to the effect of the consolidation of UP Offshore and Ravenscroft as our subsidiaries from the second quarter of 2006 as opposed to a full year in 2007 and the impact for a full year of the cost of the compensation granted to the Board and management in the form of stock options and grants of stock in the fourth quarter of 2006.

Other operating income (expenses). Other operating income was \$11.0 million in 2007 as compared to expenses of \$0.2 million in 2006. This income change is attributable mainly to the effect of the sale of the vessel Princess Marina in 2007.

Operating profit. Operating profit for the year 2007 was \$49.6 million, an increase of \$22.5 million from 2006. The difference is mainly attributable to the effect of the consolidation of UP Offshore since March 2006, significantly higher operating results of our Suezmax OBO fleet, the additional contribution due to the entry into operations of our product carriers Amadeo and Alejandrina and our Capesize vessel Princess Marisol (in the first, third and fourth quarters of 2007 respectively) and the sale of Princess Marina in 2007.

Financial expense. Financial expense increased to \$20.4 million in 2007 as compared to \$18.9 million in 2006 primarily as a result of a larger average total outstanding debt partially offset by lower average interest rates paid.

Financial loss on extinguishment of debt. Financial loss on extinguishments of debt for 2007 was \$0, as compared to expenses of \$1.4 million in 2006. This decrease is mainly attributable to the loss recognized during the fourth quarter of 2006 in connection with the early repayment of our indebtedness related to our River Business with funds from our IPO.

Financial income. Financial income in 2007 increased by \$2.2 million to \$2.9 million from \$0.7 million in 2006. This increase is mainly attributable to interest earned on higher cash balances held on average in 2007.

Loss on derivative instruments, net. Loss on derivative instruments, net increased to a loss of \$17.8 million, \$6.1 million of which were realized (cash) losses resulting from the settlements of the months of July through December 2007 (both inclusive) and \$11.7 million which were unrealized (non-cash) losses resulting from the mark-to-market as

of December 31, 2007 of all the positions sold by us for the first quarter of 2008, as compared to \$0 in 2006 because we did not have FFAs in place during 2006.

Minority interest. Minority interest decreased by \$1.2 million to \$0.7 million in 2007 as compared to \$1.9 million in 2006. This variation is mainly attributable to the acquisition of the minority interest in our River Business from International Finance Corporation in 2006 and the loss incurred through redemption of the preferred shares issued by our subsidiary UP Offshore partially offset by an increase in the minority interest attributable to our subsidiaries in the Offshore Supply Business.

Income taxes. The charge for income taxes in 2007 was \$4.8 million, compared with \$2.1 million in 2006. The higher charge in 2007 compared with 2006 principally reflects the deferred income tax liability from unrealized foreign currency exchange gains on US Dollar-denominated debt of our Brazilian subsidiary in our Offshore Supply Business (which is consolidated since the second quarter of 2006) of \$3.3 million, as well as the tax liability in Brazil under the accelerated depreciation scheme our Brazilian subsidiary is utilizing for Brazilian tax purposes.

Income (loss) from discontinued operations. Losses from discontinued operations increased by \$9.5 million from a gain of \$5.6 million in 2006 to a loss of \$3.9 million in 2007. This increase in loss is mainly attributable to higher losses in the operation of the Blue Monarch in 2007, an off-season employment of the New Flamenco in 2006 and the sale of the latter in October 2007.

## B. LIQUIDITY AND CAPITAL RESOURCES

We are a holding company and operate in a capital-intensive industry requiring substantial ongoing investments in revenue producing assets. Our subsidiaries have historically funded their vessel acquisitions through a combination of bank debt, shareholder loans, cash flow from operations and equity contributions.

The ability of our subsidiaries to make distributions to us may be restricted by, among other things, restrictions under our credit facilities and applicable laws of the jurisdictions of their incorporation or organization.

At December 31, 2008, we had aggregate indebtedness of \$412.9 million, consisting of \$180.0 million aggregate principal amount of our Notes, indebtedness of our subsidiary UP Offshore Apoio Maritimo Ltda. of \$10.6 million under a senior loan facility with DVB Bank AG (“DVB”), indebtedness of our subsidiary UP Offshore (Bahamas) Ltd. of \$74.0 million under two senior loan facilities with DVB, indebtedness of our subsidiary Ingatestone Holdings Inc. of \$13.8 million under a senior loan facility with DVB and Natixis as co-lenders, indebtedness of our subsidiary Stanyan Shipping Inc. of \$12.0 million under a senior loan facility with Natixis, indebtedness of our subsidiary Hallandale Commercial Corp. of \$17.2 million under a senior loan facility with Nordea Bank, indebtedness of our subsidiary Lowrie Shipping LLC of \$20.3 million under a senior loan facility with Banco BICE, indebtedness of the Company of \$10.0 million under a revolving credit line with Banco BICE, indebtedness of our subsidiaries UABL Barges (Panama) Inc., Marine Financial Investment Corp., Eastham Barges Inc. and UABL Paraguay S.A. of \$60.0 million in the aggregate under two senior loan facilities with International Finance Corporation, indebtedness of our subsidiary UABL Paraguay S.A. of \$15.0 million under a senior loan facility with the OPEC Fund for International Development, and total accrued interest of \$2.6 million. Please refer to “Description of Credit Facilities and Other Indebtedness” elsewhere herein.

At December 31, 2008, we had cash and cash equivalents on hand of \$105.9 million.

### Operating Activities

During the year ended December 31, 2008, we generated \$71.3 million in cash flow from operations compared to \$41.9 million in the year ended December 31, 2007. Net income for the year ended December 31, 2008 was \$47.5 million as compared to \$4.4 million in the year ended December 31, 2007, an increase of \$43.1 million.

The \$29.4 million increase in cash flow from operations is mainly attributable to higher income from continuing operations.

### Investing Activities

During the year ended December 31, 2008, we disbursed \$18.1 million for our new barge building yard under construction, \$5.9 million was advanced for the purchase of 25 heavy fuel engines for our re-engining project, \$20.1 million to enlarge and refurbish barges and pushboats, \$29.6 million as part of the purchase of 45 Mississippi barges and three pushboats, and \$8.0 million to construct our new pushboat Zonda I in our River Business; \$18.8 million to fund the advances on the four PSVs that are being constructed in India, \$21.0 million to fund the advances on the two PSVs that are being constructed in China and \$3.8 million in relation to PSV vessel UP Rubi, under construction in Brazil, in our Offshore Supply Business; and \$4.0 million to fund the improvement works in our Capesize vessel Princess Marisol, and our inland tank barge Parana Petrol, and \$1.6 million to purchase nitrogen generators for the inert gas systems to be installed in three of our Product Tankers, the Austral, Miranda I and Alejandrina, in our Ocean Business. We also received a refund of the \$54.0 million margin account deposit which was disbursed in 2007.

Financing Activities

Net cash provided by financing activities was \$58.3 million during the year ended December 31, 2008, compared to \$202.4 million during the year ended December 31, 2007. The decrease is mainly attributable to a decrease in our borrowings in 2008 as

compared to 2007, to proceeds from public offerings in 2007 for \$91.1 million as compared to none in 2008, to an increase in the scheduled repayments of our long term debt in 2008 as compared to 2007, and to the \$19.5 million used in 2008 in connection with our share buyback program, partially offset by a reduction in the early repayment in 2007 of our long term debt.

#### Future Capital Requirements

Our near-term cash requirements are related primarily to funding operations, constructing new vessels, potentially acquiring other assets including second-hand ocean vessels, increasing the size of many of our barges, purchasing and loading out barges and pushboats from the USA, constructing a new shipyard primarily for building barges and replacing the engines in our line pushboats with new engines that burn less expensive heavy fuel oil. We currently estimate that the construction of new vessels that are currently on order in India will require additional funds of approximately \$52.8 million, out of which \$11.4 million will be financed with our own cash and \$41.4 million with the part of the undrawn proceeds committed under the DVB / Natixis loan facility. We estimate that the cost of increasing the size of our barges contemplated in the enlargement project for 2009 and 2010 will be around \$16.0 million and that the cost of replacing the engines in our line pushboats will be approximately \$38.4 million. Additionally, we estimate that funds to be paid in connection with the construction of our PSVs in Brazil and China will amount to \$35.4 million. Finally, we expect to pay approximately \$8.0 million to finalize the construction of our shipbuilding yard in Argentina, and that we will also make capital expenditures to fund the building of these new barges beginning in the second half of 2009. We may order additional vessels and or incur other capital expenditures which are not discussed above or contemplated at this time. The funds will be disbursed at various times over the next few years and, accordingly, are subject to significant uncertainty. We may in the future incur indebtedness to fund some of our other initiatives, which we are currently funding through our cash flow from operations. We cannot provide assurance that our actual cash requirements will not be greater than we currently expect. If we cannot generate sufficient cash flow from operations, we may obtain additional sources of funding through capital market transactions, although it is possible these sources will not be available to us.

#### Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, useful lives of vessels, deferred tax assets, and certain accrued liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Critical accounting policies are those that reflect significant judgments or uncertainties, and potentially lead to materially different results under different assumptions and conditions. We have described below what we believe are our most critical accounting policies that involve a high degree of judgment and the methods of their application. For a description of all of our significant accounting policies, see note 2 to our audited consolidated financial statements.

#### Revenues and related expenses

We record revenue when services are rendered, when we have signed a charter agreement or another evidence of an arrangement, pricing is fixed or determinable and collection is reasonably assured.

We earn our revenues under time charters, bareboat charters, consecutive voyage charters or affreightment / voyage contracts. We earn and recognize revenue from time charters and bareboat charters on a daily basis. We recognize revenue from affreightment / voyage contracts and consecutive voyage charters based upon the percentage of voyage completion. We deem a voyage in the River Business to commence upon the departure of a discharged vessel / barge of previous cargo and we deem a voyage

ended upon the completion of discharge of the current cargo. We base the percentage of voyage completion on the miles transited at the balance sheet date divided by the total miles expected on the voyage. We determine the position of the barge at the balance sheet date by locating the position of the boat with the barge in tow through the use of a global positioning system, or GPS.

Demurrage income represents payments by the charterer to the vessel owner when loading or discharging time exceeded the stipulated time in the voyage charter and we recognize it as we earn it.

From time to time we provide ship salvage services under Lloyd's Standard Form of Salvage Agreement ("LOF"). We recognize costs as they are incurred on these LOF services. We record revenue at the time the LOF settlement or arbitration award occurs. In those cases where a minimum salvage remuneration is guaranteed or determined by law or contract then such minimum amount is recognized in revenue when services are rendered.

Vessel voyage costs, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by us under voyage charter arrangements. The commissions paid in advance are deferred and amortized by us over the related voyage charter period to the extent revenue has also been deferred by us since commissions are earned as our revenues are earned. We capitalize bunker expenses when we acquire them as operating supplies and we subsequently charge them to voyage expenses as consumed. All other voyage expenses and other vessel operating expenses are expensed as incurred by us.

#### Vessels and equipment, net

We state Vessels and equipment at cost less accumulated depreciation. This cost includes the purchase price and all directly attributable costs (initial repairs, improvements and delivery expenses, interest and on-site supervision costs incurred by us during the construction periods). We also capitalize subsequent expenditures for conversions, renewals or major improvements when they appreciably extend the life, increase the earning capacity or improve the safety features of our vessels.

We compute depreciation net of the estimated scrap value which is equal to the product of each vessel's lightweight tonnage and estimated scrap value per lightweight ton. We record depreciation using the straight-line method over the estimated useful lives of our vessels. We depreciate acquired secondhand vessels from the date of their acquisition over their remaining estimated useful lives.

From time to time, we acquire vessels which have already exceeded our own useful life policy, in which case we depreciate those vessels based on our best estimate of their remaining useful lives, typically being the next survey or certification date.

Listed below are the estimated useful lives of vessels and equipment:

	Useful lives (in years)
River barges and pushboats	35
Platform Supply Vessels (PSVs)	24
Ocean-going vessels	24 to 27
Furniture and equipment	5 to 10

However, when regulations place limitations over the ability of a vessel to trade, we adjust its useful life so that it ends at the date such regulations become effective.

Considering the years of service, condition and performance of our three Suezmax OBOs, effective October 1, 2007, we have reviewed and extended their estimated useful life from 24 to 27 years. The impact of this change in estimate on the year ended December 31, 2007 increased our net income, basic net income per share and diluted net income per share in the amount of \$0.7 million,

\$0.02 and \$0.02 per share, respectively. For the year ended December 31, 2008, its impact on net income, basic net income per share and diluted net income per share in the amount of \$2.8 million, \$0.09 and \$0.09 per share, respectively.

At the time vessels are disposed of, we remove from the accounts the assets and related accumulated depreciation, and we record any resulting gain or loss in other operating income (expense).

We review our long-lived assets for impairment in accordance with Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-lived Assets (“SFAS 144”) whenever events or changes in circumstances indicate that the carrying amount may not be recoverable by us. When the estimate of the expected future undiscounted cash flows is less than the carrying amount of the asset under review, we evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset. In developing estimates of future cash flows, we must make assumptions about future rates, fleet effective utilization, ship operating expenses, and the estimated remaining useful lives of the vessels. These assumptions are based on historical trends as well as future expectations. Although management believes that the assumptions used to evaluate potential impairment are reasonable and appropriate, such assumptions are highly subjective.

#### Drydock Costs

Our vessels must be periodically drydocked and pass inspections to maintain their operating classification, as mandated by maritime regulations. The costs that we incur to drydock our vessels are deferred and amortized using the straight-line method over the period to their next drydocking, which is generally 24 to 36 months. The costs we incur at the dry-dock yard are mainly comprised of painting the vessel’s hull and sides, recoating cargo and fuel tanks, and performing other engine and equipment maintenance activities which have to be made in order to bring or keep the vessel into compliance with classification standards. The unamortized portion of dry dock costs for vessels that we sell are written off and included in the calculation of the resulting gain or loss in the year of the vessel’s sale.

We expense expenditures for maintenance and minor repairs as we incur them.

#### Insurance claims receivable

Insurance claims receivable comprise claims submitted relating to Hull and Machinery (H&M), Protection and Indemnity (P&I) and Loss of Hire (LOH) insurance coverage. They are recorded when the recovery of an insurance claim is probable. Deductible amounts related to covered incidents are expensed in the period of occurrence of the incident. The credit risk associated with insurance claims receivable is considered low due to the high credit quality and funded status of the insurance underwriters and Protection & Indemnity (“P&I”) clubs in which the Company is a member. Insurance claims receivable, included in other receivables in the accompanying balance sheets, amounts to \$5.3 and \$7.8 at December 31, 2008 and 2007, respectively.

#### Income taxes

The Company accounts for income taxes under the liability method in accordance with Statement of Financial Accounting Standard No. 109 Accounting for Income Taxes (“SFAS 109”) and Financial Interpretation No. 48 Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. (“FIN 48”). FIN 48 was adopted on January 1, 2007, with no material impact on the Company’s consolidated financial position and results of operations.

Under this method, deferred income taxes assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of the Company’s assets and liabilities at each period end corresponding to those jurisdictions subject to income taxes. Deferred tax assets are recognized for all deductible temporary differences

and an offsetting valuation allowance is recorded to the extent that it is not more likely than not that the asset will be realized. Deferred income taxes are measured based on tax rates and laws enacted at the balance sheet date.

Our pre-tax income for the three years ended December 31, 2008 was taxed in foreign jurisdictions (principally Chile, Brazil, Argentina and Paraguay).

Income tax regulations in the different countries in which we operate under which our uncertain income tax positions are determined could be interpreted differently. In this sense, the income tax returns of our primary income tax jurisdictions remain subject to examination by related tax authorities.

The tax returns are open to examination from 3 to 7 years.

#### Derivative financial instruments

From time to time we use derivative financial instruments to reduce risk from foreign currency fluctuations, changes in spot market rates for oceangoing vessels and changes in bunker fuel prices.

Statement of Financial Accounting Standards No. 133 Accounting for Derivative Financial Instruments and Hedging Activities SFAS 133 requires companies to recognize all of their derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of derivative financial instrument depends on whether it has been designated and qualifies as part of a hedging relationship and the type of hedging relationship.

For derivative financial instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative financial instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the hedged transaction in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in income.

Derivative financial instruments that are not designated as hedges are adjusted to fair value through income.

We offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement.

Through 2007 we employed our Suezmax OBO fleet in the carriage of dry bulk cargos under time charter contracts with a term of not less than 12 months. Under these time charter contracts, we received for each day in the period of the fixed time charter contracts a fixed daily rate for the use of the vessel, and the charterer paid for all voyage expenses, including fuel and port charges. During this time of fixed time charter rates obtained by our Suezmax OBO fleet, we entered into FFAs, which met the definition of a derivative, on a speculative basis that extended from July 1, 2007 to March 31, 2008 to take advantage of short term fluctuations in the market. Beginning in 2007, the spot rates in the dry bulk market began experiencing significant variability, affected by many factors throughout the world (including world dry bulk commodity production and demand). As a result of this increased volatility, we undertook a hedging program in May 2007 under which we would hedge on an anticipatory basis the probable cash flows related to each new time charter contract executed for the vessels in our Suezmax OBO fleet from April 1, 2008 forward. We already had in place fixed rate time charter contracts for our Suezmax OBO fleet that extended through March 2008 (e.g. the revenues of the fleet were fixed until March 2008), so there was no cash flow risk until the period from April, 2008 forward.

As from May 2007, all new time charter contracts for our Suezmax OBO fleet for periods starting in April 2008 were executed with a daily variable rate based on the C4TC Index. These new variable rate contracts were effective from April 2008 forward.

The C4TC Index is an average of four key time charter routes for Capesize, Suezmax OBOs or similarly sized bulk carriers within the Atlantic, Pacific basins as well as Atlantic to Pacific and vice versa.

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Commencing in May 2007, we designated the FFAs as cash flow hedges of the variability of the probable cash flows to be received under time charter contracts for the operation of our Suezmax OBO fleet from April 2008 forward.

Since the Suezmax OBO fleet has been contracted on variable time charter contracts under which the vessel earnings have been linked to the C4TC and the related derivatives are linked to the C4TC Index, we have concluded at inception of the hedge that the hedging relationship will be highly effective during the hedge period.

We assess the effectiveness of the hedging program using the dollar offset method. Under this method hedge effectiveness is measured by comparing the overall changes in the expected cash flows of the hedge contracts with the changes in the expected cash flows for the forecasted time charter revenues. Likewise, our method of measuring hedge ineffectiveness is also dollar offset. The quoted future rates of the C4TC are used to estimate the cash flows of the forecasted time charter revenue transactions. Our typical sources of hedge ineffectiveness are the timing differences between the settlement of the FFAs and the collection of the Suezmax OBO fleet revenues, which have never been large enough to result in an unacceptable dollar offset.

At all times, we know which derivative cash flow is linked with which specific vessel's cash flow, for purposes of measuring hedge ineffectiveness and / or the identification of any overhedge position.

#### Recent accounting pronouncements

In September, 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore should be determined based on the assumptions that market participants would use in pricing an asset or liability. SFAS No. 157 sets out a fair value hierarchy and requires companies to disclose fair value measurements within that hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We have adopted SFAS No. 157 with no material impact on our consolidated financial position or results of operations.

On October 10, 2008, the FASB issued FASB Staff Position No. 157-3, determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS No. 157 in a market that is not active and illustrates key considerations in determining the fair value of a financial asset when the market for the financial asset is not active. FSP 157-3 had no impact on the Company's consolidated financial position or its results of operations.

In February 2007, the FASB issued SFAS No.159, The Fair Value Option for Financial Assets and Liabilities—Including an amendment of FASB Statement No. 155. SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities, and certain nonfinancial instruments that are similar to financial instruments, at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We did not elect the fair value option under this standard.

In December, 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No.141(R) changes SFAS No. 141, among others, by requiring acquiring companies to recognize, with certain exceptions, 100 percent of the fair values of assets acquired, liabilities assumed, and non-controlling interests in acquisitions of less than a 100 percent controlling interest when the acquisition constitutes a change in control of the acquired entity, requires recognition of pre-acquisition loss and gain contingencies at their acquisition-date fair values and requires acquisition-related transaction costs to be expensed as incurred. SFAS No. 141(R) is required to be adopted concurrently with SFAS No.160, Accounting and Reporting of Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 and is effective for business combination transactions for which the acquisition date is on or after the

beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited.

In December, 2007, the FASB also issued SFAS No. 160 which requires that a non controlling interest in a consolidated subsidiary be displayed in the consolidated statement of financial position as a separate component of equity because non-controlling interests meet the definition of equity of the consolidated entity. After control is obtained, a change in ownership interests that does not result in a loss of control will be accounted for as an equity transaction, and a change in ownership of a consolidated subsidiary that

results in a loss of control and deconsolidation is a significant event that triggers gain or loss recognition, with the establishment of a new fair value basis in any remaining ownership interests. SFAS No. 160 is required to be adopted concurrently with SFAS No. 141(R) and is effective for the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. We have not yet determined what impact, if any, the adoption of SFAS No. 160 will have on our consolidated financial position or results of operations.

In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157, deferring the effective date of SFAS No. 157 for one year for nonfinancial assets and liabilities, except those that are recognized or disclosed in the financial statements at least annually. We are evaluating the impact this adoption would have on the Company's consolidated financial position or its results of operations, if any.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133" ("SFAS 161"). SFAS 161 requires qualitative disclosures about an entity's objectives and strategies for using derivatives and quantitative disclosures about how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008, with early adoption encouraged. We have not yet determined what impact, if any, the adoption of SFAS 161 will have on our consolidated financial position or results of operations.

#### Quantitative and Qualitative Disclosures about Market Risks

##### Inflation and Fuel Price Increases

Inflation may have a material impact on our operations, as certain of our operating expenses (e.g., crewing, insurance and drydocking costs) are subject to fluctuations as a result of market forces. A sudden outburst or a very high level of inflation can have a negative impact on our results.

Inflationary pressures on bunker (fuel oil) costs are not expected to have a material effect on our future operations in the case of those ocean vessels and our offshore supply vessels which are time chartered to third parties since it is the charterers who pay for fuel. If our ocean vessels are employed under COAs, freight rates for voyage charters are generally sensitive to the price of a ship's fuel. However, a sharp rise in bunker prices may have a temporary negative effect on our results since freight rates generally adjust only after prices settle at a higher level.

In our River Business, we have some of our freight agreements adjusted by a bunker price adjustment formula, in other cases we have periodic renegotiations which adjust for fuel prices, and in other cases we adjust the fuel component of our cost into the freights on a seasonal or yearly basis as our COAs roll over. Most of our COAs provide the charterer with the option to fix the freight price based on a fixed fuel price base. In relation with the exercise of this option by some of our clients, at December 31, 2008, our subsidiary UABL Limited had forward fuel purchase agreements outstanding for 582,244 gallons at a fixed price of \$2.29 per gallon with an aggregate notional value of \$1.3 million and a fair value of \$(0.5) million.

In our Offshore Supply Business the charterers are generally responsible for the cost of fuel.

##### Interest Rate Fluctuation

We are exposed to market risk from changes in interest rates, which may adversely affect our results of operations and financial condition.

Our financial variable rate debt, as of December 31, 2008, totaled \$220.9 million. During 2008, we paid interest on this debt based on LIBOR plus an average spread of 1.88%. Our variable rate debt had an average interest rate of

4.51% as of December 31, 2008. A 1% increase in interest rates on \$220.9 million of debt would cause our interest expense to increase on average \$2.21 million per year over the term of the loans, with a corresponding decrease in income before taxes.

## Foreign Currency Fluctuation

We are an international company and, while our financial statements are reported in U.S. dollars, some of our operations are conducted in foreign currencies. We use the U.S. dollar as our functional currency, and therefore, our future operating results may be affected by fluctuations in the exchange rate between the U.S. dollar and other currencies. A large portion of our revenues are denominated in U.S. dollars as well as a significant amount of our expenses. However, changes in currency exchange rates could affect our reported revenues, and even our margins if costs incurred in multiple currencies are different than, or proportionally different from, the currencies in which we receive our revenues. We maintain tax credits in local currencies which may be negatively impacted if those currencies revalue relative to the U.S. dollar.

We have not historically significantly hedged our exposure to changes in foreign currency exchange rates and, as a result, we could incur unanticipated future losses. However, during 2008, we entered into several forward currency agreements to sell £8.0 million in 2008 at an average rate of \$1.913 per £ and £8.0 million in 2009 at an average rate of \$1.758 per £ to cover part of the exposure that stems from the revenues of our PSVs in the North Sea.

## Forward Freight Agreements

As stated in the Baltic Exchange's website ([www.balticexchange.com](http://www.balticexchange.com)), "Forward Freight Agreements ("FFAs") are 'over the counter' products made on a principal-to-principal basis. As such, they are flexible and not traded on any exchange. Contracts traded will normally be based on the terms and conditions of the FFABA standard contracts amended as agreed between the principals. The main terms of an agreement cover: (a) the agreed route, (b) the day, month and year of settlement, (c) contract quantity and (d) the contract rate at which differences will be settled. Settlement is between counter parties in cash typically within five days following the settlement date. Commissions will be agreed between principal and broker. The broker, acting as intermediary only, is not responsible for the performance of the contract. Cleared contracts, instead, also known simply as futures, are settled on a daily basis through a clearing house, and settlements are based on a close-of-play trading price. At the end of each day, traders pay or receive the difference between the price of the paper contract and the market index."

We enter into FFAs for trading purposes or to utilize them as hedges to reduce our exposure to changes in the rates earned by some of our vessels in the normal course of our Ocean Business. When using FFAs as hedges, we aim at managing the financial risk associated with fluctuating market conditions. FFAs generally cover periods ranging from one month to one year and involve contracts to provide a fixed number of theoretical days of voyages at fixed rates. FFAs have been executed through LCH, a London clearing house, with whom we started to trade during May 2007 (but may also be agreed through other clearing houses) and "over the counter" (OTC) in which case each party is generally accepting the signature of the other party as sufficient guarantee of its obligations under the contract.

The vessels whose market exposure we aim at hedging through our FFA activity are those comprising our Capesize OBO Fleet (vessels Princess Nadia, Princess Susana, Princess Katherine and Princess Marisol). Given these vessels' age, size, fuel consumption and other characteristics, they differ from the "theoretical" vessel used as reference to the index against which the FFAs settle. This means that when entering into FFAs, we must take into consideration this difference when determining the equivalence between the contract quantity and our exposure to the market. We estimate this difference to represent, on average, 25% to the detriment of our vessels against the theoretical vessel.

OTC FFAs are not cleared through a clearing house; they have no margin account requirements and bear a higher counterparty risk than a cleared FFA. If the counterparty to an OTC FFA fails to meet its obligation under the FFA, the Company could suffer losses on the contract which could adversely affect the Company's financial condition and results of operations. As of December 31, 2008, 76% of the mark-to-market of our outstanding OTC FFAs was with Bunge S.A. as counterparty, 19% was with Cetrappa Suresnes SNC (a subsidiary of Louis Dreyfus Armateurs) and 5% with Navios Maritime Holdings.

Although LCH or other clearing houses require the posting of collateral, the use of a clearing house reduces the Company's exposure to counterparty credit risk. We are exposed to market risk in relation to our positions in FFAs and could suffer substantial

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losses from these activities in the event our expectations prove to be incorrect. We enter into FFAs with an objective of either hedging risk or for trading purposes to take advantage of short term fluctuations in freight rates. As of December 31, 2008, we were committed to FFAs with a fair value of \$65.7 million recorded as an asset. Of this amount, \$5.8 million was held as cleared FFA contracts and \$59.9 million was held as OTC FFA contracts with a total of 3 different counterparties. These contracts settle between January 2009 and December 2010.

We refer you to Note 8 in our consolidated financial statements included elsewhere in this report for a detailed breakdown of our outstanding FFAs at December 31, 2008.

The fair value of FFAs is the estimated amount that we would receive or pay in order to terminate these FFA contracts as of December 31, 2008.

All of our FFAs outstanding at December 31, 2008 qualified as cash flow hedges for accounting purposes, with the change in fair value of the effective portions being recorded in accumulated other comprehensive income (loss) as an unrecognized income amounting to \$65.7 million which are shown at fair value on our balance sheet.

The Company recorded an aggregate net realized loss of \$1.5 million recorded in "Revenues – Ocean Business" and a net realized loss of \$5.8 million recorded in "Gain (loss) on derivative instruments, net" for the year ended December 31, 2008.

At March 16, 2009 the asset related to the fair market value of the FFAs was \$58.4 million. However, this amount is likely to vary significantly as a result of changes in market conditions.

As of March 17, 2009 we have received \$8.0 million for the settlements of all our January and February 2009 FFA positions, including \$7.0 million related to OTC FFAs.

Although the counterparties to our FFAs have met their obligations under their respective FFAs to date and we have received no indication that any of them will not continue to do so, there can be no guarantee that they will continue to meet their obligations in the future.

#### Description of Credit Facilities and Other Indebtedness

##### 9% First Preferred Ship Mortgage Notes due 2014

On November 24, 2004, we completed an offering of \$180 million of 9% First Preferred Ship Mortgage Notes due 2014, or the Notes, through a private placement to institutional investors eligible for resale under Rule 144A and Regulation S, or the Note Offering. The net proceeds of the Note Offering were used to repay our 10.5% First Preferred Ship Mortgage Notes due 2008, or the Prior Notes, certain other existing credit facilities and to fund an escrow account.

Interest on the Notes is payable semi-annually on May 24 and November 24 of each year. The Notes are senior obligations guaranteed by some of our subsidiaries directly involved in our Ocean and River Businesses. The Notes are secured by first preferred ship mortgages on 15 vessels (both ocean going and pushboats), one oceangoing barge, one inland tank barge, and 279 river barges.

The Notes are subject to certain covenants, including, among other things, limiting our and our subsidiaries' ability to incur additional indebtedness or issue preferred stock, pay dividends to shareholders, incur liens or execute sale leasebacks of certain principal assets and certain restrictions on our consolidating with or merging into any other person.

Upon the occurrence of a change of control event, each holder of the Notes shall have the right to require us to repurchase such notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest. A change of control means:

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- if any person beneficially owns more than 35% of our voting stock and Solimar, Los Avellanos, SIPSA S.A. and their affiliates (the “Permitted Holders”) together beneficially own a lesser percentage and do not control the election of the majority of the board of directors of the Company, or
- during any period of two consecutive years, individuals who at the beginning of such period constituted our board of directors (together with any new directors whose election by such board of directors or whose nomination for election by our shareholders was approved by a vote of 66 2/3% of our directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the board of directors then in office; or
- our merger or consolidation with or into another Person or the merger of another Person with or into us, or the sale of all or substantially all of our assets (determined on a consolidated basis) to another person other than (A) a transaction in which the survivor or transferee is a person that is controlled by the Permitted Holders or (B) a transaction following which (1) in the case of a merger or consolidation transaction, holders of securities that represented 100% of our common stock eligible to vote on matters requiring a shareholder vote immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) own directly or indirectly at least a majority of the voting power of the common stock eligible to vote on matters requiring a shareholder vote of the surviving Person in such merger or consolidation transaction immediately after such transaction and (2) in the case of a sale of assets transaction, each transferee becomes an obligor in respect of the Notes and a subsidiary of the transferor of such assets.

In the first quarter of 2005, pursuant to a registration rights agreement, we completed a registered exchange offer in which we exchanged registered Notes for the Notes that were originally issued in order to allow the Notes to be eligible for trading in the public markets.

Loan Agreement with DVB Bank AG (DVB AG) of up to \$15.0 million:

On January 17, 2006, UP Offshore Apoio Maritimo Ltda. (a wholly owned subsidiary of the Offshore Supply Business) as Borrower, Packet Maritime Inc. and Padow Shipping Inc. as Guarantors and UP Offshore as Holding Company entered into a \$15.0 million loan agreement with DVB AG for the purposes of providing post delivery financing of one PSV named UP Agua-Marinha delivered in February 2006.

This loan is divided into two tranches:

– Tranche A, amounting to \$13.0 million, shall be repaid by (i) 120 consecutive monthly installments of \$75,000 each beginning in March 2006 and (ii) a balloon repayment of \$4.0 million together with the 120 installments which accrue interest at LIBOR rate plus a margin of 2.25% per annum, and

– Tranche B, amounting to \$2.0 million, shall be repaid by 35 consecutive monthly installments of \$56,000 each beginning in March 2006 which accrues interest at LIBOR rate plus a margin of 2.875% per annum.

On January 24, 2007 UP Offshore Apoio Maritimo Ltda. and DVB AG amended and restated the margin of both tranches to 1.20% per annum effective since February 1, 2007.

The loan is secured by a mortgage on the UP Agua-Marinha and is jointly and severally irrevocable and unconditionally guaranteed by Packet Maritime Inc. and Padow Shipping Inc. The loan also contains customary covenants that limit, among other things, the Borrower’s and the Guarantors’ ability to incur additional indebtedness, grant liens over their assets, sell assets, pay dividends, repay indebtedness, merge or consolidate, change lines of business and amend the terms of subordinated debt. The agreement governing the facility also contains customary events of default. If an event of default occurs and is continuing, DVB AG may require the entire amount of the loan

be immediately repaid in full. Further, the loan agreement requires until February 2009 that the UP Agua-Marinha pledged as security has an aggregate market value of at least 117.6% of the value of the loan amount and at all times thereafter an aggregate market value of at least 133.3% of the value of the loan.

The aggregate outstanding principal balance of the loan was \$10.6 million at December 31, 2008.

Loan Agreement with DVB Bank AG (DVB AG) of up to \$61.3 million:

On December 28, 2006, UP Offshore (Bahamas) Ltd., as Borrower, entered into a \$61.3 million loan agreement with DVB AG for the purpose of refinancing three PSVs named UP Esmeralda, UP Safira and UP Topazio. The loan is divided into two advances, and shall be repaid by 40 consecutive quarterly installments as set forth in the repayment schedule therein.

The loan must be repaid by (i) 9 consecutive quarterly installments of \$1.2 million each beginning in March 2007 followed by 3 consecutive quarterly installments of \$1.3 million each, 25 of \$1.1 million and 3 of \$1.3 million, and (ii) a balloon repayment of \$16.0 million payable simultaneously with the 40th quarterly installment. The loan accrues interest at LIBOR plus 1.20% per annum.

The loan is secured by a mortgage on the UP Esmeralda, UP Safira, UP Topazio and UP Agua Marinha (together, the Mortgaged Vessels) and is jointly and severally irrevocable and unconditionally guaranteed by Ultrapetrol (Bahamas) Ltd., UP Offshore Apoio Maritimo Ltda., Packet Maritime Inc., Topazio Shipping LLC and Padow Shipping Inc. The loan also contains customary covenants that limit, among other things, the Borrower's and the Guarantors' ability to incur additional indebtedness, grant liens over their assets, sell assets, pay dividends, repay indebtedness, merge or consolidate, change lines of business and amend the terms of subordinated debt. The agreement governing the facility also contains customary events of default. If an event of default occurs and is continuing, DVB AG may require the entire amount of the loan be immediately repaid in full. Further, the loan agreement requires upon the until the third anniversary of the final advance under the loan, the Mortgaged Vessels pledged as security have an aggregate market value of at least 117.6% of the value of the loan amount and at all times thereafter an aggregate market value of at least 133.3% of the value of the loan.

The aggregate outstanding principal balance of the loan was \$52.0 million at December 31, 2008.

Loan Agreement with Natixis of \$13.6 million:

On January 29, 2007, Stanyan Shipping Inc. (a wholly owned subsidiary in the Ocean Business and the owner of the Alejandrina) as Borrower, and Ultrapetrol (Bahamas) Limited as Guarantor and Holding Company entered into a \$13.6 million loan agreement with Natixis for the purpose of providing post delivery financing of one Panamanian flag small product tanker named Alejandrina.

The loan must be repaid by (i) 40 consecutive quarterly installments of \$0.2 million each beginning in June 2007 and (ii) a balloon repayment of \$4.5 million payable simultaneously with the 40th quarterly installment. The loan accrues interest at 6.38% per annum during the first five years of the loan and LIBOR plus 1.00% per annum thereafter for so long as the Alejandrina remains chartered under standard conditions or 1.20% per annum otherwise.

The loan is secured by a mortgage on the Alejandrina and is guaranteed by Ultrapetrol (Bahamas) Limited. The loan also contains customary covenants that limit, among other things, the Borrower's and the Guarantors' ability to incur additional indebtedness, grant liens over their assets, sell assets, pay dividends, repay indebtedness, merge or consolidate, change lines of business and amend the terms of subordinated debt. The agreement governing the facility also contains customary events of default.

The aggregate outstanding principal balance of the loan was \$12.0 million at December 31, 2008.

Loan Agreement with DVB Bank AG (DVB AG) of \$25.0 million:

On October 31, 2007, UP Offshore (Bahamas) Ltd., as Borrower, entered into a \$25.0 million loan agreement with DVB AG for the purpose of providing post delivery financing of one Brazilian flag PSV named UP Diamante.

The loan shall be repaid by (i) 8 consecutive quarterly installments of \$0.8 million each beginning in February 2008 followed by 24 consecutive quarterly installments of \$0.5 million each and 8 of \$0.3, and (ii) a balloon repayment of \$5.0 million payable simultaneously with the 40th quarterly installment. The loan accrues interest at LIBOR plus 1.50% per annum.

The loan is secured by a mortgage on the UP Diamante and is jointly and severally irrevocable and unconditionally guaranteed by Ultrapetrol (Bahamas) Ltd, Packet Maritime Inc., Padow Shipping Inc., Topazio Shipping LLC, UP Offshore Apoio Maritimo Ltda., and UP Offshore (Uruguay) S.A. The loan also contains customary covenants that limit, among other things, the Borrower's and the Guarantors' ability to incur additional indebtedness, grant liens over their assets, sell assets, pay dividends, repay indebtedness, merge or consolidate, change lines of business and amend the terms of subordinated debt. The agreement governing the facility also contains customary events of default.

The aggregate outstanding principal balance of the loan was \$22.0 million at December 31, 2008.

Loan Agreement with Nordea Bank Finland PLC (Nordea Bank) of \$20.2 million:

On November 30, 2007, Hallandale Commercial Corp., as Borrower, Ultrapetrol (Bahamas) Ltd., as Guarantor, and Tuebrook Holdings Inc., as Pledgor, entered into a \$20.2 million loan agreement with Nordea Bank for the purpose of providing post delivery financing of our Panamanian flag Product Tanker, Amadeo.

The loan shall be repaid by (i) 12 consecutive quarterly installments of \$0.8 million each beginning in March 2008 followed by 12 consecutive quarterly installments of \$0.5 million each, and (ii) a balloon repayment of \$5.2 million payable simultaneously with the 24th quarterly installment. The loan accrues interest at LIBOR plus 1.25% per annum.

The loan is secured by a mortgage on the Amadeo and is jointly and severally irrevocable and unconditionally guaranteed by Ultrapetrol (Bahamas) Ltd. The loan also contains customary covenants that limit, among other things, the Borrower's and the Guarantors' ability to incur additional indebtedness, grant liens over their assets, sell assets, pay dividends, repay indebtedness, merge or consolidate, change lines of business and amend the terms of subordinated debt. The agreement governing the facility also contains customary events of default.

The aggregate outstanding principal balance of the loan was \$17.2 million at December 31, 2008.

Credit Agreement with Banco BICE of \$10.0 million:

On October 12, 2007, Ultrapetrol (Bahamas) Limited, as Borrower and Corporación de Navegación Mundial S.A., UP Offshore (Bahamas) Ltd. and Marine Financial Investment Corp., as Guarantors, entered into a 3-year, \$15.0 million, revolving unsecured Credit Agreement with Banco BICE. On October 31, 2007, the Borrower and the Guarantors agreed with Banco Bice to an increase, for a short term period, of the principal amount of the credit facility for the sum of \$10.0 million. These \$25.0 million were fully utilized to fund part of the acquisition of our Capesize vessel Princess Marisol in November 2007.

On October 31, 2007, we agreed to reduce the three-year, \$15.0 revolving non-secured credit facility with Banco BICE to \$10.0 million, subject to entering into another Credit Agreement with Banco BICE for \$25.0 million, the proceeds of which would be used to pay down the revolving facility to \$0 while the facility would be capped to \$10.0 million. Our obligations under this credit facility are guaranteed by three of our subsidiaries. This loan bears interest at LIBOR plus 1.625% per annum.

On September 12, 2008, Marine Financial Investment Corp. was replaced by Compañía Paraguaya de Transporte Fluvial S.A. as a Guarantor.

As of December 31, 2008, we had fully drawn down this revolving unsecured credit facility which has a scheduled maturity date on April 14, 2009.



Credit Agreement with Banco BICE of \$25.0 million:

On January 25, 2008, Lowrie Shipping LLC, as Borrower, Ultrapetrol (Bahamas) Ltd., as Guarantor, and Tuebrook Holdings Inc., as Pledgor, entered into a new 4-year, \$25.0 million, term secured loan agreement with Banco Bice for the purpose of repaying the \$25.0 million we had borrowed from Banco Bice under the revolving credit facility.

The loan shall be repaid by (i) 16 consecutive quarterly installments of \$1.6 million each beginning in April 2008. The loan accrues interest at LIBOR plus 2.95% per annum.

The loan is secured by a mortgage on the Princess Marisol and is jointly and severally irrevocable and unconditionally guaranteed by Ultrapetrol (Bahamas) Ltd and Angus Shipping LLC. The loan also contains customary covenants that limit, among other things, the Borrower's and the Guarantors' ability to incur additional indebtedness, grant liens over their assets, sell assets, pay dividends, repay indebtedness, merge or consolidate, change lines of business and amend the terms of subordinated debt. The agreement governing the facility also contains customary events of default.

The aggregate outstanding principal balance of the loan was \$20.3 million at December 31, 2008.

On February 27, 2009, we agreed with Banco BICE to fully and voluntarily prepay all of the outstanding amounts without any contractual penalty or breakage costs. Therefore, we will pay \$18.8 million plus all the interest accrued to discharge the loan completely prior to the end of April 2009.

Loan Agreement with DVB Bank AG (DVB AG) and Natixis of \$93.6 million:

On June 24, 2008 Ingestone Holdings Inc., as Borrower, and Ultrapetrol (Bahamas) Limited, UP Offshore (Bahamas) Ltd., Bayshore Shipping Inc., Gracebay Shipping Inc., Springwater Shipping Inc. and Woodrow Shipping Inc. (all of these our subsidiaries in the Offshore Supply Business), as joint and several Guarantors, entered into a senior secured term loan facility of up to \$93.6 million with DVB AG and Natixis, as co-lenders, to finance the construction and delivery of our four PSVs being constructed in India.

This loan is divided into two tranches:

Tranche A, amounting to \$60.0 million, to be made available for each ship in the amount of up to \$15.0 million in multiple advances for the payment of installments of the contract price due under the applicable shipbuilding contract. This tranche accrues interest at LIBO rate plus a margin of 1.5% and shall be repaid by (i) 40 quarterly installments of \$0.25 million per ship and (ii) a balloon repayment of \$5.0 million per ship together with the last installment. The first quarterly repayment shall commence on the date falling three months after the delivery date of such ship. During the pre-delivery period, advances of Tranche A in respect of each ship shall not exceed \$3.45 million per advance and in the aggregate for each ship the lesser of (i) 60% of the relevant construction cost and (ii) \$13.8 million.

Tranche B, amounting to \$33.6 million, to be made available for each ship in the amount of up to \$8.4 million in a single advance on the delivery date of such ship. This tranche accrues interest at LIBO rate plus a margin of 1.75% per annum and shall be repaid by 20 quarterly installments of \$0.42 million per ship. The first quarterly repayment shall commence on the date falling three months after the delivery date of such ship.

The loan contains customary covenants which are similar to the stipulated covenants in previous loans entered with DVB AG. The agreements governing the facility also contain customary events of default. If an event of default occurs and is continuing, DVB AG and Natixis may require the entire amount of the loans be immediately repaid in full.

As of December 31, 2008, we have drawn down \$13.8 million as first advance of the Tranche A applicable to our four PSVs under construction in India.

Loan Agreement with International Finance Corporation (IFC) of \$25.0 million:

On September 15, 2008 UABL Paraguay S.A., as Borrower, and IFC entered into a loan agreement to partially finance: (i) the replacement of existing pushboat engines and conversion of pushboats to install such engines, (ii) the enlargement and re-bottoming of existing barges, (iii) the construction and acquisition of additional pushboats and barges and (iv) supplies and related equipment for the foregoing.

The loan has a grace period of 4 years followed by 9 consecutive semi annual installments of \$1.09 million and 8 consecutive semi annual installments of \$1.90 million, beginning in June 2012. The loan accrues interest at LIBOR plus a spread between 1.875% and 3.250%, obtained from the Guarantor Prospective Debt Service Coverage ratio as indicated in the agreement, beginning with 3.00% in December 2008.

The loan is secured by a mortgage on part of our River Business fleet. The loan contains various restrictive covenants such as limiting the Borrower's ability to declare or pay any dividend, to incur capital expenditures, leases, or enter into derivative transactions (except for fuel swaps) among others.

The aggregate outstanding principal balance of the loan was \$25.0 million at December 31, 2008.

Loan Agreement with International Finance Corporation (IFC) of \$35.0 million:

On September 15, 2008 UABL Barges (Panama) Inc., UABL Towing Services S.A., Marine Financial Investment Corp. and Eastham Barges Inc. (all our subsidiaries in the River Business), as Borrowers, and IFC entered into a loan agreement to partially finance: (i) the replacement of existing pushboat engines and conversion of pushboats to install such engines, (ii) the enlargement and re-bottoming of existing barges, (iii) the construction and acquisition of additional pushboats and barges and (iv) supplies and related equipment for the foregoing.

The loan has a grace period of 4 years followed by 9 consecutive semi annual installments of \$1.52 million and 8 consecutive semi annual installments of \$2.66 million, beginning in June 2012. The loan accrues interest at LIBOR plus a spread between 1.875% and 3.250%, obtained from the Guarantor Prospective Debt Service Coverage ratio as indicated in the agreement, beginning with 3.00% in December 2008.

The loan is secured by a mortgage on part of our River Business fleet. The loan contains various restrictive covenants such as limiting the Borrower's ability to declare or pay any dividend, to incur capital expenditures, leases, or enter into derivative transactions (except for fuel swaps) among others.

The aggregate outstanding principal balance of the loan was \$35.0 million at December 31, 2008.

Loan Agreement with The OPEC Fund for International Development (OFID) of \$15.0 million:

On November 28, 2008 UABL Paraguay S.A., as Borrower, and OFID entered into a loan agreement to partially finance: (i) the replacement of existing pushboat engines and conversion of pushboats to install such engines, (ii) the enlargement and re-bottoming of existing barges, (iii) the construction and acquisition of additional pushboats and barges and (iv) supplies and related equipment for the foregoing.

The loan has a grace period of 4 years followed by 9 consecutive semi annual installments of \$0.65 million and 8 consecutive semi annual installments of \$1.14 million, beginning in June 2012. The loan accrues interest at LIBOR plus a spread between 1.875% and 3.250%, obtained from the Guarantor Prospective Debt Service Coverage ratio as indicated in the agreement, beginning with 3.00% in December 2008.

The loan is secured by a mortgage on part of our River Business fleet. The loan contains various restrictive covenants such as limiting the Borrower's ability to declare or pay any dividend, to incur capital expenditures, leases, or enter into derivative transactions (except for fuel swaps) among others.

The aggregate outstanding principal balance of the loan was \$15.0 million at December 31, 2008.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

Not Applicable.

D. TREND INFORMATION

We believe the following developments and initiatives will have a significant impact on the operations of our various businesses.

River Business

◆ **New vessels.** – Between February 5 and March 28, 2008, we acquired 45 Mississippi barges, two 7,200 BHP pushboats and one 3,800 BHP pushboat in the United States.

◆ **Expansion and fuel efficiency initiatives** – We have expanded and put through the barge enlargement program approximately 50 barges. We are also working on a four year program to replace the diesel engines in our main line pushboats with new engines that will burn less expensive heavy fuel oil and build a new pushboat directly with new heavy fuel engines. Some of our largest pushboats, will in addition receive increased pushing power, taking their pushing capacity from 5,400 BHP on average to approximately 8,300 HP on average. We have contracted for 25 heavy fuel engines with MAN Diesel.

◆ **Construction of new barge building yard.** – We are currently finishing the construction of a barge building yard in Punta Alvear, Argentina. When finished, by the end of second quarter 2009, it is expected to be capable to build 52 Jumbo barges per year at full single shift production scale, with the ability to double its capacity if required.

Offshore Supply Business

◆ **New vessels** – We expect delivery of our sixth PSV UP Rubi, under construction in Brazil, in the second quarter of 2009. In addition, we have four PSVs under construction in India and two PSVs under construction in China with expected delivery dates between 2009 and 2010.

Ocean Business

◆ **Vessel acquisitions and dispositions in our Ocean Business** – On April 6, 2008, we added to our Product Tanker Fleet an 11,299 dwt, 2006-built product tanker, the M/T Austral, through a 3-year bareboat charter from an unrelated third party.

◆ **Forward Freight Agreements** – starting in May 2007, we entered into certain Forward Freight Agreements (FFAs) which we utilize as: (i) hedging instruments that reduce our exposure to changes in the spot market rates earned by certain of our vessels in the normal course of our Ocean Business, or (ii) for trading purposes to take advantage of short term fluctuations in the market. These FFAs involve a contract to provide a fixed number of theoretical days of voyages at fixed rates. At March 16, 2009 the asset related to the fair market value of the FFAs was \$58.4 million. However, this amount is likely to vary significantly as a result of changes in market conditions.

Passenger Business

◆ **Discontinued Operation** – We discontinued the operations of our Passenger Business in December 2008, after the end of the European summer season and have laid up the Blue Monarch while she remains in the market for sale.

E. OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

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## F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following schedule summarizes our contractual obligations and commercial commitments as of December 31, 2008. The amounts below include both principal and interest payments.

## Contractual Obligations

	Total	Current(a)	Payments due by period		
			Two to three years(b)	Four to five years(c)	After five years(d)
(Dollars in thousands)					
1. Long – term debt obligations(e)					
- DVB Bank AG					
· Tranche A	\$ 10,450	\$ 900	\$ 1,800	\$ 1,800	\$ 5,950
· Tranche B	111	111	--	--	--
- DVB Bank AG	52,039	5,189	8,600	8,600	29,650
- DVB Bank AG	22,000	3,000	4,000	4,000	11,000
- Nordea Bank Finland PLC	17,200	3,000	5,000	9,200	--
- Banco BICE (up to \$10.0 million revolving facility)	10,000	10,000	--	--	--
- Banco BICE	20,313	20,313	--	--	--
- Natixis	12,027	908	1,816	1,816	7,487
- IFC UABL Paraguay	25,000	--	--	4,348	20,652
- IFC UABL	35,000	--	--	6,087	28,913
- OFID	15,000	--	--	2,609	12,391
- DVB / Natixis (up to \$93.6 million)					
· Tranche A	13,800	--	1,610	1,840	10,350
· Tranche B	--	--	--	--	--
- 9% Senior Notes 2014 (\$180.0 million)	180,000	--	--	--	180,000
<b>Total long – term debt obligations</b>	<b>\$ 412,940</b>	<b>\$ 43,421</b>	<b>\$ 22,826</b>	<b>\$ 40,300</b>	<b>\$ 306,393</b>
Estimated interest on long-term debt obligations					
- DVB Bank AG (up to \$15.0 million)					
· Tranche A	\$ 1,385	267	462	367	289
· Tranche B	--	--	--	--	--
- DVB Bank AG	7,355	1,334	2,293	1,838	1,890
- DVB Bank AG	3,341	619	1,023	787	912
- Nordea Bank Finland PLC	1,479	436	638	405	--
- Banco BICE (up to \$10.0 million revolving facility)	241	241	--	--	--
- Banco BICE	172	172	--	--	--
- Natixis	4,483	756	1,336	1,102	1,289
- IFC UABL Paraguay	9,075	1,122	2,243	2,100	3,610
- IFC UABL	12,705	1,570	3,141	2,940	5,054
- OFID	5,445	673	1,346	1,260	2,166
- DVB / Natixis (up to \$93.6 million)					

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· Tranche A	3,172	306	782	676	1,408
· Tranche B					
- 9% Senior Notes 2014 (\$180.0 million)	97,200	16,200	32,400	32,400	16,200
Total estimated interest on long – term debt obligations	146,053	23,696	45,664	43,875	32,818
2. Operating lease obligations	\$ 8,472	\$ 3,993	\$ 4,424	\$ 22	\$ 33
3. Purchase obligations					
- Vessel construction					
· EISA Shipyard	3,660	3,660	--	--	--
· Bharati Shipyard(g)	52,831	30,818	22,013	--	--
· Wison Shipyard	31,760	26,500	5,260	--	--
- Engine Purchase(g)	19,312	19,312	--	--	--
Total purchase obligations	\$ 107,563	\$ 80,290	\$ 27,273	--	--
Total Contractual Obligations	675,028	151,400	100,187	84,197	339,244

- (a) Represents the period from January 1, 2009 through December 31, 2009.  
 (b) Represents the period from January 1, 2010 through December 31, 2011.  
 (c) Represents the period from January 1, 2012 through December 31, 2013.  
 (d) Represents the period after December 31, 2013.  
 (e) Represents principal amounts due on outstanding debt obligations, current and long-term, as of December 31, 2008. Amounts do not include interest payments.  
 (f) U.S. dollar / Euro exchange rate of 1.397 effective as of December 31, 2008 as per European Central Bank.  
 (g) \$52,831 of pending contractual obligations partially financed with \$41,400 of pre-delivery proceeds from the DVB/Natixis loan facility. Additionally, such loan facility provides \$33,600 as post-delivery financing.

The interest rate and term assumptions used in these calculations are contained in the following table:

Obligation	Principal at December 31, 2008	Interest Rate	Period From-To
- DVB Bank AG			
· Tranche A	\$ 10,450	2.63%	1/1/2009 – 2/28/2016
· Tranche B	111	2.63%	1/1/2009 – 2/28/2009
- DVB Bank AG	52,039	2.63%	1/1/2009 – 12/30/2016
- DVB Bank AG	22,000	2.93%	1/1/2009 – 11/30/2017
- Nordea Bank Finland PLC	17,200	2.68%	1/1/2009 – 12/31/2013
- Banco BICE (up to \$10.0 million revolving facility)	10,000	3.05%	1/1/2009 – 4/30/2009
- Banco BICE	20,313	4.38%	1/1/2009 – 4/30/2009
- Natixis	12,027	6.38%	1/1/2009 – 2/28/2017
- IFC UABL Paraguay	25,000	4.43%	1/1/2009 – 06/30/2020
- IFC UABL	35,000	4.43%	1/1/2009 – 06/30/2020
- OFID	15,000	4.43%	1/1/2009 – 06/30/2020
- DVB / Natixis (up to \$93.6 million)			
· Tranche A	13,800	2.93%	1/1/2009 – 10/31/2019
· Tranche B	--	--	--

- (h) All interest expense calculations begin January 1, 2009 and end on the respective maturity dates. The LIBOR is the three month rate in effect as of December 31, 2008.

We believe, based upon current levels of operation, that cash flow from operations, combined with other sources of funds, will provide adequate liquidity to fund required payments of principal and interest on our debt, including obligations under the Notes, complete anticipated capital expenditures and fund working capital requirements.

Our ability to make scheduled payments of principal, or to pay interest on, or to refinance, our indebtedness, including the Notes, or to fund planned capital expenditures will depend on our ability to generate cash from our operation in the future. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

G. SAFE HARBOR

Forward-looking information discussed in this Item 5 includes assumptions, expectations, projections, intentions and beliefs about future events. These statements are intended as "forward-looking statements". We caution that assumptions, expectations,

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projections, intentions and beliefs about future events may and often do vary from actual results and the differences can be material. Please see "Cautionary Statement Regarding Forward-Looking Statements" in this Report.

ITEM 6. – DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND EXECUTIVE OFFICERS

Set forth below are the names, ages and positions of our directors and executive officers. Our board of directors is elected annually, and each director elected holds office until his successor has been duly elected and qualified, except in the event of his death, resignation, removal or the earlier termination of his term of office. George Wood has agreed to serve on our audit committee. Officers are elected from time to time by vote of our board of directors and hold office until a successor is elected. The business address of each of our executive officers and directors is H&J Corporate Services Ltd., Ocean Centre, Montagu Foreshore, East Bay St., P.O. Box SS-19084, Nassau, Bahamas.

Name	Age	Position
Felipe Menendez Ross	54	Chief Executive Officer, President and Director
Ricardo Menendez Ross	59	Executive Vice President and Director
Leonard J. Hoskinson	55	Chief Financial Officer, Secretary and Director
James F. Martin	54	Director
Teseo Bergoglio	35	Director
Michael C. Hagan	62	Director
George Wood	63	Director
Alberto G. Deyros	53	Chief Accountant

Biographical information with respect to each of our directors, executives and key personnel is set forth below.

Felipe Menendez Ross. Mr. Menendez has been President, Chief Executive Officer and a Director of the Company since incorporation in December 1997, and is the brother of Ricardo Menendez. Mr. Menendez commenced his career in shipping in 1974. He is President, and has been a Director of Ultrapetrol S.A. since its incorporation in 1992 as well as the President and CEO of UABL. Mr. Menendez is also a Director of SIPSA S.A., or SIPSA, a Chilean publicly traded company controlled by the Menendez family. Mr. Menendez has been, and continues to be, actively involved in other businesses associated with the Menendez family, as well as other companies affiliated with SIPSA.

Ricardo Menendez Ross. Mr. Menendez is the Executive Vice President of the Company and CEO of UP Offshore and has been a Director of the Company since incorporation in December 1997, and is the brother of Felipe Menendez. Mr. Menendez began his career in the shipping industry in 1970 with Compania Chilena de Navegacion Interoceania S.A., and has continuously been involved in the management of the Menendez family's shipping interests. He is the President of Oceanmarine, and has been the Executive Vice President and a Director of Ultrapetrol S.A. since it was formed in 1992. Mr. Menendez is also a Director of SIPSA, and remains involved in the management of other Menendez family businesses. Mr. Menendez has been a member of the board of The Standard Steamship Owners' Protection & Indemnity Association (Bermuda) Limited (a member of the International Group of Protection & Indemnity Associations) since 1993 and is currently its Chairman. Mr. Menendez is also a Director of UABL.

Leonard J. Hoskinson. Mr. Hoskinson is the Chief Financial Officer of the Company, was appointed Director of the Company in March 2000 and assumed the position of Secretary six months later. Mr. Hoskinson has been employed by the Company and its subsidiaries for over 19 years. Prior to that, he had an international banking career specializing in ship finance spanning over 19 years and culminating as the Head of Shipping for Marine Midland

Bank NA in New York (part of the HSBC banking group). He is also a Director of UABL.

James F. Martin. Mr. Martin has been a Director since 2000. He is Managing Partner at EMP Latin America and a Managing Director at EMP Global, responsible for the management of the \$1.1 billion, Bermuda-based AIG-GE Capital Latin America

Infrastructure Fund L.P., the Central American Mezzanine Infrastructure Fund and for development of new funds and financial advisory activities in the Latin America region. Prior to joining EMP Global in 1997, Mr. Martin was head of a team responsible for investments in water and environmental infrastructure at International Finance Corporation. Mr. Martin has a BSFS in International Economics from Georgetown University and a MBA from Columbia University. He is also a Director of UABL and UP Offshore.

Teseo Bergoglio. Mr. Bergoglio has been appointed Director in 2009. He is Partner at EMP Latin America and a Managing Director at EMP Global, responsible for the management of the \$1.1 billion, Bermuda-based AIG-GE Capital Latin America Infrastructure Fund L.P., the Central American Mezzanine Infrastructure Fund and for development of other funds and financial advisory activities in the Latin America region. Mr. Bergoglio has worked on investments in marine transportation, ports, power, telecom, gas transportation and railroads with focus in Brazil. Prior to joining EMP Global in 2001, Mr. Bergoglio worked at Enron Corp in their Gas and Power Risk Management Group in Houston and in Sao Paulo. Mr. Bergoglio has a B.S. in Business, a Masters in Economics and an MBA. He has also been a Director in UP Offshore since 2002. Mr. Bergoglio has served or currently serves as a director in other transportation companies in South America including ports and railroads.

Michael C. Hagan. Mr. Hagan has been a Director since October 2006. He has served as Chief Executive Officer of American Commercial Lines (ACL) from 1991 to 2003, and has served as Executive Vice President from 1989 to 1991. ACL was at the time one of the largest inland river-oriented businesses engaged in barge transportation, marine terminal and marine equipment manufacturing businesses with peak sales of \$850.0 million. Mr. Hagan started his career within ACL in American Commercial Barge Lines (ACBL), a subsidiary of ACL, where he was responsible for the sales and marketing of their inland barge operation. He then became Sales VP for CSX Transportation Railroad, with sales volume of \$2.5 billion per annum in bulk and manufactured products as well as liquid chemicals. Mr. Hagan holds a B.S. in Business Administration from Brescia University. Mr. Hagan is a member of the National Waterways Foundation board of Directors and is a past Chairman of the American Waterways Operators.

George Wood. Mr. Wood has been a Director upon since October 2006. He is managing director of Chancery Export Finance LLC (Chancery), a firm licensed by the Export Import Bank of the United States of America (ExIm Bank). Chancery provides ExIm Bank guaranteed financing for purchase of U.S. manufactured capital goods by overseas buyers. Prior to his designation as managing director of Chancery, Mr. Wood worked as managing director of Baltimore based Bengur Bryan & Co. (Bengur Bryan) providing investment-banking services to transportation related companies in the global maritime, U.S. trucking, motor coach and rail industries. Before his employment with Bengur Bryan in 2000, Mr. Wood was employed for 27 years in various managerial positions at the First National Bank of Maryland which included managing the International Banking Group as well as the bank's specialized lending divisions in leasing, rail, maritime and motor coach industries, encompassing a risk asset portfolio of \$1.2 billion. Mr. Wood holds a B.S. in Economics and Finance from University of Pennsylvania and an MBA from University of North Carolina and became a CPA in 1980. Mr. Wood presently serves as member of the Boards of Atlanta-based Infinity Rails Wawa Inc., and John S. Connor Inc. Mr. Wood recently served for two years on the Board of LASCO Shipping Co.

Alberto G. Deyros. Mr. Deyros is the Chief Accountant of the Company and was appointed in April 2006. Mr. Deyros has been employed by the Company and its subsidiaries for more than eight years. Prior to that, he specialized in ship administration management over a period of 20 years. Mr. Deyros is a Certified Public Accountant and a graduate of Universidad de Buenos Aires.

## B. COMPENSATION

The aggregate annual net cost to us for the compensation paid to members of the board of directors and our executive officers was \$4.4 million for the fiscal year ended December 31, 2008.

### Management Agreements

For the day to day management of our operations, we and / or our subsidiaries have entered into administrative and management agreements to provide specific services for our operations. We refer you to “Related Party Transactions” in Item 7.B of this report.

## C. BOARD PRACTICES

Our audit committee is composed of Mr. Wood, one of our independent directors and is responsible for reviewing our accounting controls and recommending to the board of directors the engagement of our outside auditors. Our corporate governance practices are in compliance with Bahamian law, and we are exempt from many of the corporate governance provisions of the Nasdaq Marketplace Rules other than those related to the establishment of an audit committee.

We have certified to Nasdaq that our corporate governance practices are in compliance with, and are not prohibited by, the laws of The Bahamas. Therefore, we are exempt from many of Nasdaq’s corporate governance practices other than the requirements regarding the disclosure of a going concern audit opinion, submission of a listing agreement, notification of material non-compliance with Nasdaq corporate governance practices and the establishment of an audit committee in accordance with Nasdaq Marketplace Rules 4350(d)(3) and 4350(d)(2)(A)(ii). The practices that we follow in lieu of Nasdaq’s corporate governance rules are as follows:

- We do not have a board of directors with a majority of independent directors, nor are we required to under Bahamian law. However, we have two independent directors.
- In lieu of holding regular meetings at which only independent directors are present, our entire board of directors, may hold regular meetings, as is consistent with Bahamian law.
- In lieu of an audit committee comprising three independent directors, our audit committee will have at least one member, which is consistent with Bahamian law. The member of the audit committee is a financial expert. We cannot guarantee that at least one member of our audit committee will continue to meet this requirement.
- In lieu of a nomination committee comprising independent directors, our board of directors will be responsible for identifying and recommending potential candidates to become board members and recommending directors for appointment to board committees. Shareholders may also identify and recommend potential candidates to become board members in writing. No formal written charter has been prepared or adopted because this process is outlined in our memorandum of association.
- In lieu of a compensation committee comprising independent directors, our board of directors will be responsible for establishing the executive officers’ compensation and benefits. Under Bahamian law, compensation of the executive officers is not required to be determined by an independent committee.
- In lieu of obtaining an independent review of related party transactions for conflicts of interests, consistent with Bahamian law requirements, our memorandum of association provides that related party transactions must be approved by disinterested directors, and in certain circumstances, supported by a fairness opinion.

- Pursuant to our articles of association, we are required to obtain shareholder approval in order to issue additional securities.
- As a foreign private issuer, we are not required to solicit proxies or provide proxy statements to Nasdaq pursuant to Nasdaq corporate governance rules or Bahamian law. Consistent with Bahamian law and as provided in our articles of association, we will notify our shareholders of meetings between 15 and 60 days before the meeting. This notification will contain, among other things, information regarding business to be transacted at the meeting. In addition, our memorandum of association provides that shareholders must give us 90 days advance notice to properly introduce any business at a meeting of the shareholders. Our memorandum of association also provides that shareholders may designate a proxy to act on their behalf (in writing or by telephonic or electronic means as approved by our board from time to time).

Other than as noted above, we are in full compliance with all other applicable Nasdaq corporate governance standards.

#### D. EMPLOYEES

As of December 31, 2008, we employed approximately 1,129 employees, consisting of 252 land-based employees and approximately 877 seafarers as crew on our vessels, of which 446 were in our River Business, 140 were in our Offshore Supply Business and 291 were in our Ocean Business. This represents a 10% increase with respect to December 31, 2007, mainly attributable to larger River and Offshore Supply fleets as well as to the additional administrative work created by our expansion of operations, partially offset by the discontinuation of our Passenger Business. Some of these employees were employed through various manning agents depending on the nationality as listed below:

- Indian crew: Orient Ship Management & Manning Pvt., Ltd.,  
Mumbai, India
- Argentine crew: Tecnical Services S.A., a subsidiary, Montevideo,  
Uruguay
- Filipino crew: C.F. Sharp Crew Management, Manila, Philippines
- Ukrainian crew: South Star Ltd., Odessa, Ukraine
- Romanian crew: Corona Shipping SRL, Constantza, Romania
- Indonesian crew: Indomarimo Maju PT, Jakarta, Indonesia
- Greek and Eastern European crew: Nova Manning Services, Piaraeus, Greece
- Paraguayan crew: Tecnical Services S.A., a subsidiary, Montevideo,  
Uruguay

Our crew is employed under the standard collective bargaining agreements with the seafarers' union in their respective countries. The crew is employed on contractual terms valid for a fixed duration of service on board the vessels. We ensure that all the crew employed on board our vessels have the requisite experience, qualifications and certification to comply with all international regulations and shipping conventions. Our training requirements for the crew exceed the applicable statutory requirements. We always man our vessels above the safe manning requirements of the vessels' flag state in order to ensure proper maintenance and safe operation of the vessels. We have in force special programs such as a performance-related incentive bonus, which is paid to some of our senior officers upon rejoining our ships. This ensures retention of qualified and competent staff.

#### E. SHARE OWNERSHIP

For information concerning the share ownership in our Company of our officers and directors, please see Item 7 — Major Shareholders and Related Party Transactions.

## ITEM 7 – MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

## A. MAJOR SHAREHOLDERS

The following table sets forth information regarding the owners of more than five percent of our common stock as of March 17, 2009. The address of Inversiones Los Avellanos S.A., Solimar Holdings Ltd. and Hazels (Bahamas) Investments Inc. is Ocean Centre, Montagu Foreshore, East Bay St., P.O. Box SS-19084, Nassau, Bahamas.

Name	Number of Shares Beneficially Owned	Percent of Shares Beneficially Owned	Voting Percentage(1)
Inversiones Los Avellanos S.A. (2) (3) (4)	4,886,395	16.6%	43.7%
Solimar Holdings Ltd. (2) (5) (6)	3,124,074	10.5%	27.6%
Fidelity Management & Research Co. (7)	4,914,988	16.6%	6.5%
Franklin Resources, Inc. (8)	1,914,310	6.5%	2.5%
Neuberger Berman Inc. (9)	1,471,464	5.0%	1.9%
Hazels (Bahamas) Investments Inc. (2) (3)	150,878	0.5%	0.2%
All directors and executive officers as a group (3) (10)	5,465,847	18.4%	44.5%

- (1) Solimar, Los Avellanos and Hazels are each entitled to seven votes for each share of common stock that they hold since the Company's Initial Public Offering in October 2006. Shares purchased in the secondary market after the IPO are entitled to only one vote per share.
- (2) Solimar, Los Avellanos and Hazels have entered into an agreement pursuant to which they have agreed to vote their respective shares together in all matters where a vote of our shareholders is required. (See "Related Party Transactions" in Item 7.B. of this report).
- (3) Los Avellanos and Hazels are controlled by members of the Menendez family, including Felipe Menendez R., our President, Chief Executive Officer and a director, and Ricardo Menendez R., our Executive Vice President and a director. Los Avellanos is a wholly-owned subsidiary of SIPSA S.A. and Hazels is 99.8% owned by Los Avellanos.
- (4) Includes 150,878 shares owned by Hazels.
- (5) Includes warrants held by Solimar which entitle it to purchase up to 146,384 shares at an exercise price of \$6.83 per share.
- (6) Solimar is a wholly-owned subsidiary of the AIG-GE Capital Latin American Infrastructure Fund L.P., a Bermuda Limited Partnership.
- (7) As per Schedule 13G filed with U.S. SEC on February 17, 2009.
- (8) As per Schedule 13G filed with U.S. SEC on February 9, 2009.
- (9) As per Schedule 13G filed with U.S. SEC on January 9, 2009.
- (10) Includes 310,000 shares of restricted stock issued to companies controlled by our Chief Executive Officer, and Executive Vice President. Includes 232,500 shares of common stock issuable within 60 days upon exercise of options granted to these companies and to a company controlled by our Chief Financial Officer which have vested, out of a total of 348,750, as well as 36,952 shares of restricted stock issued to our non-executive directors as part of their compensation for the services rendered to us as board members.

In connection with our Initial Public Offering in October 2006, Solimar Holdings Ltd. sold 147,436 shares as part of the over-allotment option by the underwriters, and Hazels (Bahamas) Investments Inc. sold 85,276 shares also as part of the over-allotment.

In connection with the Follow-on Offering made in April 2007, Solimar Holdings Ltd. sold 6,694,974 shares, Inversiones Los Avellanos S.A. sold 156,948 shares and Hazels (Bahamas) Investments Inc. sold 702,000 shares. During 2007, Hazels (Bahamas) Investments Inc. purchased 49,500 shares.

During 2008, the Company bought back 3,923,094 of its own shares and Hazels (Bahamas) Investments Inc. purchased 101,219 shares.

## B. RELATED PARTY TRANSACTIONS

Our revenues derived from transactions with related parties for each of the years ended December 31, 2006, 2007 and 2008 amounted to approximately \$4.1 million, \$3.0 million, and \$0 million respectively. As of December 31, 2006, 2007 and 2008, the balances of the accounts receivable from and payables to all related parties were approximately \$5.2 million, \$4.4 million and \$5.2 million, respectively.

Shipping Services Argentina S.A. (Formerly I. Shipping Services S.A.)

We and our subsidiaries also contract with related parties for various services. Pursuant to an agency agreement with us, Shipping Services Argentina S.A. (formerly I. Shipping Services S.A.) has agreed to perform the duties of port agent for us in Argentina. Shipping Services Argentina S.A. is indirectly controlled by the Menendez family, which includes Felipe Menendez R. and Ricardo Menendez R. For these services, we pay Shipping Services Argentina S.A. fees ranging from \$800 to \$1,875 per port call. For each of the years ended December 31, 2006, 2007 and 2008 the

amounts paid and / or accrued for such services amounted to \$0.08 million, \$0.08 million, and \$0.13 million, respectively. We believe that payments made under the above agreements reflect market rates for the services provided and are similar to what third parties pay for similar services.

Certain of our directors and senior management hold similar positions with our related parties. Felipe Menendez R., who is our President, Chief Executive Officer and a director, is also a director of Maritima SIPSA S.A., and Shipping Services Argentina S.A. Ricardo Menendez R., who is our Executive Vice President and one of our directors, is also the President of Shipping Services Argentina S.A., and is a director of Maritima SIPSA S.A. In light of their positions with such entities, these officers and directors may experience conflicts of interest in selecting between our interests and those of Maritima SIPSA S.A. and Shipping Services Argentina S.A.

Commercial Commissions paid to Comintra Enterprise Ltd.

In 2003, UP Offshore (Bahamas) Ltd. signed a commercial agreement with Comintra, one of its shareholders. Under this agreement Comintra agreed to assist UP Offshore (Bahamas) Ltd. regarding the commercial activities of UP Offshore (Bahamas) Ltd.'s fleet of five PSVs with the Brazilian offshore oil industry. Comintra's responsibilities, among others, include marketing the PSVs in the Brazilian market and negotiating the time charters or other revenues contracts with prospective charterers of the PSVs.

The parties agreed that Comintra's professional fees under this agreement shall be 2% of the gross time charters revenues from Brazilian charters collected by UP Offshore (Bahamas) Ltd. on a monthly basis.

Comintra's services in connection with this agreement began on June 25, 2003, and, unless earlier terminated end on June 25, 2013.

UP Offshore (Bahamas) Ltd. may terminate this agreement (a) at any time upon 30 days notice if (i) PSVs representing more than 50% of the gross time charter revenues of UP Offshore (Bahamas) Ltd. arising from contracts in Brazil are sold or (ii) Ultrapetrol and LAIF cease owning, jointly or separately, more than 50% of UP Offshore (Bahamas) Ltd.'s outstanding voting stock; (b) Comintra breaches any material term of this agreement; (c) in the event of gross negligence or material failure to perform the services by Comintra, or (d) upon mutual agreement.

In the event of termination under subsections (a) or (d) above, such termination shall not be effective unless and until UP Offshore (Bahamas) Ltd. shall have also paid to Comintra \$2.5 million (less any fees already paid to Comintra through the termination date). Other than the figures mentioned above no further indemnification will be due by UP Offshore (Bahamas) Ltd. to Comintra.

During 2005 UP Offshore (Bahamas) Ltd. paid in advance to Comintra fees under this agreement in the amount of \$1.5 million. At December 31, 2008, 2007 and 2006 the outstanding balance was \$0.7 million, \$1.0 million and \$1.4 million, respectively. During 2008, 2007 and 2006 UP Offshore (Bahamas) Ltd. paid to Comintra \$0.3 million, \$0.3 million and \$0.1 million respectively.

Since March 21, 2006 the date of UP Offshore (Bahamas) Ltd. acquisition, our financial statements included the operations of UP Offshore (Bahamas) Ltd. on a consolidated basis. Therefore, these transactions have been included in the consolidated financial statements since that date.

#### Operations in OTS S.A.'s terminal

UABL Paraguay, our subsidiary in the River Business, operates the terminal that pertains to Obras Terminales y Servicios S.A. (OTS S.A.), a related party. In 2008, 2007 and 2006, UABL Paraguay paid to OTS S.A. \$0.8 million, \$0.7 million and \$0.6 million, respectively, for this operation.

#### Solimar (Holdings) Ltd. Warrants

Under the terms of the warrant agreement dated March 16, 2000, and as amended on September 21, 2006, our shareholder Solimar owns warrants to purchase, prior to the 7.36842 for one stock split that occurred on September 25, 2006, up to 146,384 shares of our common stock at an exercise price of \$6.83 per share. These warrants may be exercised at any time up to and including March 1, 2010 for restricted and unregistered shares.

#### SIPSA S.A.

On May 20, 2008 we received a \$7.9 million loan from SIPSA S.A., a related party, which we repaid fully on June 17, 2008. In connection with this financing we paid, during 2008, \$0.04 million in interest to SIPSA S.A.

#### Registration Rights Agreement

We are parties to a registration rights agreement with Los Avellanos, Hazels and Solimar, our shareholders prior to our IPO, pursuant to which we granted them and certain of their transferees, the right, under certain circumstances and subject to certain restrictions, including restrictions included in the lock-up agreements to which Los Avellanos, Hazels and Solimar are party, to require us

to register under the Securities Act shares of our common stock held by Los Avellanos, Hazels or Solimar. Under the registration rights agreement, Los Avellanos, Hazels and Solimar have the right to request that we register the sale of shares held by them on their behalf and may require that we make available shelf registration statements permitting sales of shares into the market from time to time over an extended period. We are required to pay all registration expenses in connection with the demand registrations under the registration rights agreement except that the underwriters' expenses reimbursement will be limited to one counsel. In addition, Los Avellanos, Hazels and Solimar have the ability to exercise certain piggyback registration rights in connection with registered offerings initiated by us, for which we must pay all expenses.

#### Shareholders Agreement

Solimar, Los Avellanos and Hazels are party to a second amended and restated shareholders agreement, dated September 21, 2006, that became effective on October 18, 2006 that contains, among other things, provisions relating to director designation rights, restrictions of transfers of stock held by them and an agreement to vote their shares together on certain matters.

#### Employment Agreements

We have entered into employment contracts with our President and Chief Executive Officer, Felipe Menendez R., our Executive Vice President, Ricardo Menendez R., our Chief Financial Officer, Leonard J. Hoskinson, and our Chief Accountant, Mr. Alberto G. Deyros. Each of these employment agreements has an initial term of three years from October 18, 2006 and is subject to one year renewals at our written election. In addition, on July 20, 2006, we entered into separate consulting agreements that became effective October 18, 2006 with companies controlled by our chief executive officer, executive vice president, chief financial officer and chief accountant for work they performed for us in various different jurisdictions. Some of these consulting agreements obligate us to grant these companies an aggregate of 310,000 shares of restricted stock for which we expect to incur charges over the three year period of the agreement equal in the aggregate to the number of shares granted multiplied by \$11.00 (the IPO price) and 348,750 shares issuable upon the exercise of options with an exercise price of \$11.00 (the IPO price) pursuant to the Plan.

#### C. INTERESTS OF EXPERTS AND COUNSEL

Not Applicable.

#### ITEM 8 – FINANCIAL INFORMATION

##### A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See Item 18.

##### B. SIGNIFICANT CHANGES

None.

#### ITEM 9 – THE OFFER AND LISTING

##### A. 4. Information regarding the price history of the stock listed:

(a) High and low market prices for the five most recent full financial years



Per share prices	Financial Year Ended December 31,				
	2004	2005	2006	2007	2008
High	--	--	\$13.62	\$27.04	\$17.44
Low	--	--	\$9.81	\$12.80	\$1.84

(b) High and low market prices for each full financial quarter for the two most recent full financial years

Per share prices	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
High	\$19.85	\$24.80	\$27.04	\$19.70	\$17.44	\$16.15	\$13.84	\$7.77
Low	\$12.80	\$16.84	\$15.02	\$13.57	\$7.13	\$8.84	\$5.65	\$1.84

(c) High and low market prices for each month, for the most recent six months:

Per share prices	September 2008	October 2008	November 2008	December 2008	January 2009	February 2009
High	\$11.17	\$7.77	\$4.43	\$4.09	\$4.47	\$2.67
Low	\$5.65	\$3.13	\$1.84	\$2.55	\$2.27	\$1.96

#### B. PLAN OF DISTRIBUTION

Not Applicable.

#### C. MARKETS

Our Common Stock is listed on The Nasdaq Global Market under the symbol "ULTR".

#### D. SELLING SHAREHOLDERS

Not Applicable.

#### E. DILUTION

Not Applicable.

#### F. EXPENSES OF THE ISSUE

Not Applicable.

ITEM 10 – ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not Applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The following summarizes certain provisions of the Company’s Second Amended and Restated Memorandum of Association and Fourth Amended and Restated Articles of Association (hereinafter referred to as “the Memorandum and Articles of Association”).

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This summary is qualified in its entirety by reference to the International Business Companies Act, 2000 and the Company's Memorandum and Articles of Association. Information on where investors can obtain copies of the Memorandum and Articles of Association is described under the heading "Documents on Display" under this Item.

#### Objects and Purposes

The Company is incorporated in the Commonwealth of the Bahamas ("The Bahamas") under the name Ultrapetrol (Bahamas) Limited. The Registered Office of the Company is situated at H & J Corporate Services Ltd., Ocean Centre, Montagu Foreshore, East Bay Street, P.O. Box SS-19084 Nassau, Bahamas. The Registered Agent of the Company is H & J Corporate Services Ltd., Ocean Centre, Montagu Foreshore, East Bay Street, P.O. Box SS-19084, Nassau, Bahamas.

Clause 4 of the Company's Memorandum of Association provides that its purpose is to engage in any lawful act or activity for which companies organized under the International Business Companies Act, 2000 (the "Act") or any successor law to the Act that is at any time in force in the Commonwealth of The Bahamas, may now or hereafter be permitted to engage.

#### Directors

The Company shall have a board of directors (the Board of Directors") which shall meet at least quarterly, and shall direct and oversee the management and affairs of the Company and which may exercise all the powers of the Company that are not expressly reserved to the Shareholders under the Articles, the Act or any other laws of the Commonwealth of The Bahamas. The Board of Directors may from time to time, in its discretion, fix the amounts which shall be payable to members of the Board of Directors and to members of any committee, for attendance at the meetings of the Board of Directors or of such committee and for services rendered to the Company.

Subject always to the Act, the Company shall not enter into:

- (i) any merger or consolidation involving the Company on the one hand and any Named Shareholder that is a Shareholder of the Company, any affiliate of such Named Shareholder or any member of the Company's management or Board of Directors or their respective affiliates (each an "Interested Party") on the other hand;
- (ii) any sale, lease or other direct or indirect disposition of all or substantially all of the Company's and its subsidiaries' assets in a transaction or series of related transactions to one or more Interested Parties;
- (iii) any merger or consolidation or sale, lease or other direct or indirect disposition of all or substantially all of the Company's and its subsidiaries' assets in a transaction or series of related transactions that would result in the receipt of different types or amounts of consideration per share by one or more Interested Parties on the one hand, and any other of the Company's Shareholders, on the other hand; and
- (iv) any business transaction between the Company or its subsidiaries on the one hand and one or more Interested Parties on the other hand, involving a value in excess of \$2 million;

without (A) having previously obtained, at the Company's expense, a fairness opinion confirming that the proposed transaction is fair from a financial standpoint for the Company and, with respect to a transaction described in Section 2.12(a) (iii) above, for those Shareholders which are not Interested Parties and (B) such proposed transaction being approved by a majority of disinterested Directors of the Company. Any fairness opinion pursuant to the preceding sentence shall be rendered by an internationally recognized investment banking, auditing or consulting firm (or, if the proposed transaction involves the sale or purchase of a vessel or other floating assets, by an internationally recognized shipbroker) selected by the Company's disinterested Directors and engaged on behalf of the Company and / or its

Shareholders. To qualify as a disinterested Director for purposes of this Section 2.12, a Director must not have a personal interest in the transaction at hand and must not otherwise have a relationship that, in the opinion of the Company's Board of Directors,

would interfere with the exercise of independent judgment in carrying out the responsibilities of a Director. Further, should any such transaction require Shareholder approval, it must be approved by a majority vote of those Shareholders entitled to vote that are not Interested Parties.

In this connection, the International Business Companies Act, 2000, provides that subject to any limitations in the Memorandum and Articles of Association and any unanimous shareholder agreement, no such agreement or transaction is void or voidable by reason that the director is present at the meeting of directors that approves the agreement or transaction or that the vote of the director is counted for that purpose. Such agreement or transaction is valid if the material facts of the director's interest in the agreement or transaction and his interest in or relationship to any other party to the agreement or transaction are disclosed in good faith or are known to the shareholders entitled to vote at a meeting of the shareholders and the agreement or transaction is approved or ratified by resolution of the shareholders. A director who has an interest in any particular business to be considered at a meeting of directors may be counted for the purpose of determining whether the meeting is duly constituted. A director need not be a member of the Company and no shareholding qualification shall be necessary to qualify a person as a director.

#### Share Rights, Preferences, Restrictions

Dividends may be declared in conformity with applicable law by, and at the discretion of, the Board of Directors at any regular or special meeting. Dividends may be declared and paid in cash, stock or other property of the Company.

Subject as therein provided, the Articles may be amended, added to, altered or repealed, or new Articles may be adopted, at any annual or special meeting of the Shareholders by the vote of holders of a majority of the votes of the shares issued and outstanding and entitled to vote at such meeting of Shareholders. At all meetings of Shareholders of the Company, except as otherwise expressly provided by law, there must be present, either in person or by proxy, Shareholders of record holding at least a majority of the votes of the shares issued and outstanding and entitled to vote at such meetings in order to constitute a quorum, but if less than a quorum is present, a majority of those shares present either in person or by proxy shall have power to adjourn any meeting until a quorum shall be present. If after an adjournment an adjourned meeting is held, for the purpose of such adjourned meeting in order to establish a quorum there must be present, either in person or by proxy, Shareholders of record holding at least a one-third of the votes of the shares issued and outstanding and entitled to vote at such adjourned meeting.

If a quorum is present, and except as otherwise expressly provided by law, the affirmative vote of a majority of the votes represented at the meeting shall be the act of the Shareholders of the Company. At any meeting of Shareholders of the Company, with respect to a matter for which a Shareholder is entitled to vote, each such Shareholder shall be entitled to one (1) vote for each share of Common Stock it holds; provided that the Named Shareholders, as such term is defined in the Memorandum of Association, shall be entitled to seven (7) votes for each share of Common Stock held by it that was initially acquired by a Named Shareholder prior to the completion of the Company's initial public offering (which right shall be personal and non-transferable, unless to another Named Shareholder or Permitted Transferee, as such term is defined in the Memorandum of Association), subject to the limitations set forth in the Memorandum of Association. Each Shareholder may exercise such voting right either in person or by proxy provided, however, that no proxy shall be valid after the expiration of eleven months from the date such proxy was authorized unless otherwise provided in the proxy. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient to support an irrevocable power. A Shareholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the Company.

Notice of every annual and special meeting of Shareholders of the Company, other than any meeting the giving of notice of which is otherwise prescribed by law, stating the date, time, place and purpose thereof, and in the case of special meetings, the name of the person or persons at whose direction the notice is being issued, shall be given personally or sent by mail, telegraph, cablegram, telex, teleprinter or such other method (including electronic mail) as

permitted by the United States Securities and Exchange Commission and the NASDAQ Marketplace Rules on the date thereof, at least fifteen (15) but not more than sixty (60) days before such meeting, to each Shareholder of record entitled to vote thereat and to each Shareholder of record who, by reason of any action proposed at such

meeting would be entitled to have his shares appraised if such action were taken, and the notice shall include a statement of that purpose and to that effect. If mailed, notice shall be deemed to have been given when deposited in the mail, directed to the Shareholder at his address as the same appears on the record of Shareholders of the Company or at such address as to which the Shareholder has given notice to the Secretary. Notice of a meeting need not be given to any Shareholder who submits a signed waiver of notice, whether before or after the meeting, or who attends the meeting without protesting prior to the conclusion thereof the lack of notice to him.

There are no limitations under the laws of The Bahamas on the rights of non-resident or foreign shareholders to hold or exercise voting rights.

#### C. MATERIAL CONTRACTS

None.

#### D. EXCHANGE CONTROLS

Under Bahamian law, there are currently no restrictions on the export or import of capital, including foreign exchange controls or restrictions that affect the remittance of dividends, interest or other payments to non-resident holders of our common stock.

#### E. TAX CONSIDERATIONS

The following is a discussion of the material Bahamian and United States federal income tax considerations relevant to an investment decision by a U.S. Holder and a Non-U.S. Holder, each as defined below, with respect to the common stock. This discussion does not purport to deal with the tax consequences of owning common stock to all categories of investors, some of which, such as dealers in securities, investors whose functional currency is not the United States dollar and investors that own, actually or under applicable constructive ownership rules, 10% or more of our common stock, may be subject to special rules. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under United States federal, state, local or foreign law of the ownership of common stock.

##### Bahamian Tax Considerations

In the opinion of Higgs & Johnson, the following are the material Bahamian tax consequences of our activities to us and shareholders of our common stock. We are incorporated in the Commonwealth of The Bahamas. Under current Bahamian law, we are not subject to tax on income or capital gains, and no Bahamian withholding tax will be imposed upon payments of dividends by us to our shareholders for a period of twenty years from our date of incorporation.

##### United States Federal Income Tax Considerations

In the opinion of Seward & Kissel LLP, our United States counsel, the following are the material United States federal income tax consequences to us of our activities and to U.S. Holders and Non-U.S. Holders, each as defined below, of our common stock. The following discussion of United States federal income tax matters is based on the United States Internal Revenue Code of 1986, as amended, or the Code, judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the United States Department of the Treasury, all of which are subject to change, possibly with retroactive effect. The discussion below is based, in part, on the description of our business as described in "Business" above and assumes that we conduct our business as described in that section. References in the following discussion to "we" and "us" are to Ultrapetrol (Bahamas) Limited and its subsidiaries on a combined basis.



## United States Federal Income Taxation of Our Company

### Taxation of Operating Income: in General

We anticipate that the Company will earn substantially all its income from the hiring or leasing of vessels for use on a time, voyage or bareboat charter basis or from the performance of services directly related to those uses, which we refer to as “shipping income.”

Unless exempt from United States federal income taxation under the rules of Section 883 of the Code, or Section 883, as discussed below, we will be subject to United States federal income tax on our shipping income that is treated as derived from sources within the United States, to which we refer as “United States source shipping income.” For these purposes, United States source shipping income includes 50% of our shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States.

Shipping income attributable to transportation that both begins and ends in the United States is considered to be 100% from sources within the United States. We are not permitted by law and therefore do not expect to engage in transportation that produces income which is considered to be 100% from sources within the United States.

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

In the absence of exemption from tax under Section 883, our gross U.S.-source shipping income would be subject to a 4% tax imposed without allowance for deductions as described below. Our non-U.S. subsidiaries did not derive any U.S.-source shipping income for the calendar year 2008, but may derive U.S.-source shipping income in future years.

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

Under Section 883 of the Code and the final Treasury Regulations promulgated thereunder, or the final regulations, which became effective on January 1, 2005 for calendar taxpayers such as ourselves, a foreign corporation will be exempt from United States federal income taxation on its U.S.-source shipping income if:

(1) it is organized in a qualified foreign country which, as defined, is one that grants an “equivalent exemption” to corporations organized in the United States in respect of each category of shipping income for which exemption is being claimed under Section 883 and to which we refer to as the “Country of Organization Test”; and

(2) either

(A) more than 50% of the value of its stock is beneficially owned, directly or indirectly, by qualified shareholders which as defined includes individuals who are “residents” of a qualified foreign country which we refer to as the “50% Ownership Test,” or

(B) its stock, or that of its 100% parent, is “primarily and regularly traded on an established securities market” in a qualified foreign country or in the United States, which we refer to as the “Publicly-Traded Test.”

The Commonwealth of The Bahamas and Panama, the jurisdictions where we and our vessel-owning subsidiaries are incorporated, each have been officially recognized by the United States Internal Revenue Service, or IRS, as a qualified foreign country that grants the requisite equivalent exemption from tax in respect of each category of shipping income we and our subsidiaries earn and currently expect to earn in the future. Therefore, we and each of our

subsidiaries will be exempt from United States federal income taxation with respect to our U.S.-source shipping income if we satisfy either the 50% Ownership Test or the Publicly-Traded Test. We do not believe that we are able to satisfy the 50% Ownership Test due to the widely-held ownership of our stock. Our ability and that of our subsidiaries to qualify for exemption under Section 883 is solely dependent upon satisfaction of the Publicly-Traded Test as discussed below.

The final regulations provide, in pertinent part, that stock of a foreign corporation will be considered to be “primarily traded” on an established securities market if the number of shares of each class of stock that are traded during any taxable year on all established securities markets in that country exceeds the number of shares in each such class that are traded during that year on established securities markets in any other single country. Our common stock, which is our sole class of issued and outstanding stock, is “primarily traded” on The Nasdaq Global Market.

Under the final regulations, our common stock will be considered to be “regularly traded” on an established securities market if one or more classes of our stock representing more than 50% of our outstanding shares, by total combined voting power of all classes of stock entitled to vote and total value, will be listed on the market, which we refer to as the listing threshold. Since our common stock is listed on The Nasdaq Global Market, we satisfy the listing requirement.

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

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

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

We anticipate that our 5% Shareholders may own a majority of our common stock. If our 5% Shareholders own a majority of our common stock, then we will be subject to the 5% Override Rule unless we can establish that among the closely-held group of 5% Shareholders, there are sufficient 5% Shareholders that are qualified shareholders for purposes of Section 883 to preclude non-qualified shareholders in the closely-held group from owning 50% or more of our common stock for more than half the number of days during the taxable year. In order to establish this, sufficient 5% Shareholders that are qualified shareholders would have to comply with certain documentation and certification requirements designed to substantiate their identity as qualified shareholders.

We believe that we will be able to establish that a sufficient number of shares of our common stock are owned by qualified shareholders among our 5% Shareholders in order to qualify for the benefits of Section 883. However, there can be no assurance that we will be able to continue to satisfy the substantiation requirements in the future.

### Taxation in the Absence of Exemption

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

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

Our U.S. source shipping income would be considered “effectively connected” with the conduct of a U.S. trade or business only if:

- we have, or are considered to have, a fixed place of business in the United States involved in the earning of shipping income; and
- substantially all of our U.S. source shipping income is attributable to regularly scheduled transportation, such as the operation of a vessel that follows a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States.

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

### United States Taxation of Gain on Sale of Vessels

If we and our subsidiaries qualify for exemption under Section 883 in respect of the shipping income derived from the international operation of our vessels, then gain from the sale of any such vessel should likewise be exempt from tax under Section 883. In the absence of the benefits of exemption under Section 883, we and our subsidiaries will not be subject to United States federal income taxation with respect to gain realized on a sale of a vessel, provided the sale is considered to occur outside of the United States under United States federal income tax principles. In general, a sale of a vessel will be considered to occur outside of the United States for this purpose if title to the vessel, and risk of loss with respect to the vessel, pass to the buyer outside of the United States. It is anticipated that any sale of a vessel by us will be considered to occur outside of the United States.

### UNITED STATES FEDERAL INCOME TAXATION OF U.S. HOLDERS

As used herein, the term “U.S. Holder” means a beneficial owner of common stock that is a United States citizen or resident, United States corporation or other United States entity taxable as a corporation, an estate the income of which is subject to United States federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more United States

persons have the authority to control all substantial decisions of the trust.

If a partnership holds our common stock, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding our common stock, you are encouraged to consult your tax advisor.

## Distributions

Subject to the discussion of passive foreign investment companies below, any distributions made by us with respect to our common stock to a U.S. Holder will generally constitute dividends, which may be taxable as ordinary income or “qualified dividend income” as described in more detail below, to the extent of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Distributions in excess of our earnings and profits will be treated first as a nontaxable return of capital to the extent of the U.S. Holder’s tax basis in his common stock on a dollar-for-dollar basis and thereafter as capital gain. Because we are not a United States corporation, U.S. Holders that are corporations will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us. Dividends paid with respect to our common stock will generally be treated as “passive category income” or, in the case of certain types of U.S. Holders, as “general category income” for purposes of computing allowable foreign tax credits for United States foreign tax credit purposes.

Dividends paid on our common stock to a U.S. Holder who is an individual, trust or estate (a “U.S. Individual Holder”) should be treated as “qualified dividend income” that is taxable to such U.S. Individual Holders at preferential tax rates (through 2010) provided that: (1) our common stock is readily tradable on an established securities market in the United States (such as The Nasdaq Global Market on which our common stock is traded); (2) we are not a passive foreign investment company for the taxable year during which the dividend is paid or the immediately preceding taxable year (which we do not believe we are, have been or will be); and (3) the U.S. Individual Holder has owned the common stock for more than 60 days in the 121-day period beginning 60 days before the date on which the common stock becomes ex-dividend. Any dividends paid by the Company which are not eligible for these preferential rates will be taxed as ordinary income to a U.S. Individual Holder. Legislation has previously been introduced in the United States Congress which would prevent our dividends from qualifying for these preferential rates prospectively from the date of enactment.

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

## Sale, Exchange or other Disposition of Common Stock

Assuming we do not constitute a passive foreign investment company for any taxable year, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common stock in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder’s tax basis in such stock. Subject to the discussion of extraordinary dividends above, such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder’s holding period is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as U.S.-source income or loss, as applicable, for U.S. foreign tax credit purposes. A U.S. Holder’s ability to deduct capital losses is subject to certain limitations.

## Passive Foreign Investment Company Status and Significant Tax Consequences

Special United States federal income tax rules apply to a U.S. Holder that holds stock in a foreign corporation classified as a passive foreign investment company for United States federal income tax purposes. In general, we will be treated as a passive foreign investment company with respect to a U.S. Holder if, for any taxable year in which such holder held our common stock, either:

- at least 75% of our gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business); or
- at least 50% of the average value of the assets held by the corporation during such taxable year produce, or are held for the production of, passive income.

For purposes of determining whether we are a passive foreign investment company, we will be treated as earning and owning our proportionate share of the income and assets, respectively, of any of our subsidiary corporations in which we own at least 25% of the value of the subsidiary's stock. Income earned, or deemed earned, by us in connection with the performance of services would not constitute passive income. By contrast, rental income would generally constitute "passive income" unless we were treated under specific rules as deriving our rental income in the active conduct of a trade or business.

Based on our current operations and future projections, we do not believe that we are, have been nor do we expect to become, a passive foreign investment company with respect to any taxable year. Although there is no legal authority directly on point, our belief is based principally on the position that, for purposes of determining whether we are a passive foreign investment company, the gross income we derive or are deemed to derive from the period chartering and voyage chartering activities of our wholly-owned subsidiaries should constitute services income, rather than rental income. Correspondingly, such income should not constitute passive income, and the assets that we and our wholly-owned subsidiaries own and operate in connection with the production of such income, in particular, the vessels, should not constitute passive assets for purposes of determining whether we are a passive foreign investment company. We believe there is substantial legal authority supporting our position consisting of case law and IRS pronouncements concerning the characterization of income derived from period charters and voyage charters as services income for other tax purposes. However, in the absence of any legal authority specifically relating to the statutory provisions governing passive foreign investment companies, the IRS or a court could disagree with our position. In addition, although we intend to conduct our affairs in a manner to avoid being classified as a passive foreign investment company with respect to any taxable year, we cannot assure you that the nature of our operations will not change in the future.

As discussed more fully below, if we were to be treated as a passive foreign investment company for any taxable year, a U.S. Holder would be subject to different taxation rules depending on whether the U.S. Holder makes an election to treat us as a "Qualified Electing Fund," which election we refer to as a "QEF election." As an alternative to making a QEF election, a U.S. Holder should be able to make a "mark-to-market" election with respect to our common stock, as discussed below.

#### Taxation of U.S. Holders Making a Timely QEF Election

If a U.S. Holder makes a timely QEF election, which U.S. Holder we refer to as an "Electing Holder," the Electing Holder must report each year for United States federal income tax purposes his pro rata share of our ordinary earnings and our net capital gain, if any, for our taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received from us by the Electing Holder. The Electing Holder's adjusted tax basis in the common stock will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously taxed will result in a corresponding reduction in the adjusted tax basis in the common stock and will not be taxed again once distributed. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of our common stock. A U.S. Holder would make a QEF election with respect to any year that our company is a passive foreign investment company by filing one copy of IRS Form 8621 with his United States federal income tax return and a second copy in accordance with the instructions to such form. If we were aware that we were to be treated as a passive foreign investment company for any taxable year, we would provide each U.S. Holder with all necessary information in order to make the QEF election described above.

#### Taxation of U.S. Holders Making a "Mark-to-Market" Election

Alternatively, if we were to be treated as a passive foreign investment company for any taxable year and, as we anticipate, our stock is treated as "marketable stock," a U.S. Holder would be allowed to make a "mark-to-market" election with respect to our common stock, provided the U.S. Holder completes and files IRS Form 8621 in

accordance with the relevant instructions and related Treasury Regulations. If that election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common stock at the end of the taxable year over such holder's adjusted tax basis in the common stock. The U.S. Holder would also be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted

tax basis in the common stock over its fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder's tax basis in his common stock would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of our common stock would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the common stock would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included in income by the U.S. Holder.

#### Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election

Finally, if we were to be treated as a passive foreign investment company for any taxable year, a U.S. Holder who does not make either a QEF election or a "mark-to-market" election for that year, whom we refer to as a "Non-Electing Holder," would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on our common stock in a taxable year in excess of 125 percent of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the common stock), and (2) any gain realized on the sale, exchange or other disposition of our common stock. Under these special rules:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holders' aggregate holding period for the common stock;
  - the amount allocated to the current taxable year would be taxed as ordinary income; and
- the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

These penalties would not apply to a pension or profit sharing trust or other tax-exempt organization that did not borrow funds or otherwise utilize leverage in connection with its acquisition of our common stock. If a Non-Electing Holder who is an individual dies while owning our common stock, such holder's successor generally would not receive a step-up in tax basis with respect to such stock.

#### UNITED STATES FEDERAL INCOME TAXATION OF "NON-U.S. HOLDERS"

A beneficial owner of common stock that is not a U.S. Holder is referred to herein as a "Non-U.S. Holder."

#### Dividends on Common Stock

Non-U.S. Holders generally will not be subject to United States federal income tax or withholding tax on dividends received from us with respect to our common stock, unless that income is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States. If the Non-U.S. Holder is entitled to the benefits of a United States income tax treaty with respect to those dividends, that income is generally taxable only if it is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States.

#### Sale, Exchange or Other Disposition of Common Stock

Non-U.S. Holders generally will not be subject to United States federal income tax or withholding tax on any gain realized upon the sale, exchange or other disposition of our common stock, unless:

- the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States. If the Non-U.S. Holder is entitled to the benefits of an income tax treaty with respect to that gain, that gain is

generally taxable only if it is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States; or

- the Non-U.S. Holder is an individual who is present in the United States for 183 days or more during the taxable year of disposition and other conditions are met.

If the Non-U.S. Holder is engaged in a United States trade or business for United States federal income tax purposes, the income from the common stock, including dividends and the gain from the sale, exchange or other disposition of the stock that is effectively connected with the conduct of that trade or business will generally be subject to regular United States federal income tax in the same manner as discussed in the previous section relating to the taxation of U.S. Holders. In addition, in the case of a corporate Non-U.S. Holder, its earnings and profits that are attributable to the effectively connected income, which are subject to certain adjustments, may be subject to an additional branch profits tax at a rate of 30%, or at a lower rate as may be specified by an applicable income tax treaty.

#### Backup Withholding and Information Reporting

In general, dividend payments, or other taxable distributions, made within the United States to a non-corporate U.S. Holder will be subject to information reporting requirements. Such payments will also be subject to backup withholding tax if a non-corporate U.S. Holder:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that it has failed to report all interest or dividends required to be shown on its federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable.

If a Non-U.S. Holder sells its common stock to or through a United States office or broker, the payment of the proceeds is subject to both United States backup withholding and information reporting unless such holder certifies that it is a non-U.S. person, under penalties of perjury, or otherwise establishes an exemption. If a Non-U.S. Holder sells its common stock through a non-United States office of a non-United States broker and the sales proceeds are paid to such holder outside the United States then information reporting and backup withholding generally will not apply to that payment. However, United States information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made to a Non-U.S. Holder outside the United States, if such holder sells its common stock through a non-United States office of a broker that is a United States person or has some other contacts with the United States.

Backup withholding tax is not an additional tax. Rather, a holder generally may obtain a refund of any amounts withheld under backup withholding rules that exceed its income tax liability by filing a refund claim with the IRS.

#### F. DIVIDEND AND PAYING AGENTS

Not Applicable.

#### G. STATEMENTS BY EXPERTS

The information and data in Item 4.B relating to the international maritime transportation industry have been provided by Doll Shipping Consultancy (“DSC”) an independent United Kingdom-based company providing market analysis and strategic planning services to the shipping industry. DSC bases its analysis on information drawn from published and private sources. DSC has advised us that (1) some industry data included in the referenced section of this filing is

based on estimates or subjective judgments in circumstances where data for actual market transactions either does not exist or is not publicly available, (2) the published information of other maritime data collection experts may differ from this data, and (3) while DSC has taken reasonable care in the compilation of the industry statistical data and believe them to be correct, data collection is subject to limited audit and validation procedures.

## H. DOCUMENTS ON DISPLAY

The Company is subject to the informational requirements of the Securities and Exchange Act of 1934, as amended. In accordance with these requirements we file reports and other information with the Securities and Exchange Commission. These materials, including this annual report and the accompanying exhibits may be inspected and copied at the public reference facilities maintained by the Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling 1 (800) SEC-0330, and you may obtain copies at prescribed rates from the Public Reference Section of the Commission at its principal office in Washington, D.C. 20549. The SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. In addition, documents referred to in this annual report may be inspected at the Company's headquarters at Ocean Centre, Montague Foreshore East Bay Street, Nassau, Bahamas.

## I. SUBSIDIARY INFORMATION

Not Applicable.

## ITEM 11 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Item 5 — Operating and Financial Review and Prospects — Quantitative and Qualitative Disclosures About Market Risk.”

## ITEM 12 – DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

## PART II

## ITEM 13 – DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

## ITEM 14 – MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

## ITEM 15 – CONTROLS AND PROCEDURES

### (a) Disclosure Controls and Procedures.

Management assessed the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this annual report (as of December 31, 2008). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the evaluation date.

### (b) Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) promulgated under the Exchange Act.



Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. Management has performed an assessment of the effectiveness of the Company's internal controls over financial reporting as of December 31, 2008 based on the provisions of Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on its assessment, management, including the Company's chief executive and chief financial officer, determined that the Company's internal controls over financial reporting were effective as of December 31, 2008 based on the criteria in Internal Control—Integrated Framework issued by COSO.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

Pistrelli, Henry Martin y Asociados S.R.L., the Company's independent registered public accounting firm, who audited the financial statements included in the Annual Report, has audited and reported on the effectiveness of the Company's internal controls over financial reporting as of December 31, 2008 as stated in their report which appears elsewhere in this Annual Report.

#### (c) Attestation Report of Independent Registered Public Accounting Firm

The Attestation Report appears under Item 18 and is incorporated herein by reference.

#### (d) Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting that occurred during the year covered by this annual report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### ITEM 16A – AUDIT COMMITTEE FINANCIAL EXPERT

We have established an audit committee composed of one board member that is responsible for reviewing our accounting controls and recommending to the board of directors the engagement of our outside auditors. The sole member of the audit committee, Mr. George Wood, is an independent director and the audit committee financial expert.

#### ITEM 16B – CODE OF ETHICS

The Company has adopted a code of ethics applicable to the Company's principal executive officer and principal financial officer, principal accounting officer or controller, which complies with the definition of a "code of ethics" set out in Section 406(c) of the Sarbanes-Oxley Act of 2002.

We will provide to any person without charge, upon request, a copy of the code of ethics. Written requests for such copies must be sent to the Company Secretary at our principal executive offices at Ultrapetrol (Bahamas) Limited, c/o H&J Corporate Services Ltd., Ocean Center, Montague Foreshore, East Bay Street, Nassau, Bahamas, P.O. Box SS-19084.

ITEM 16C – PRINCIPAL ACCOUNTANT FEES AND SERVICES

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Pistrelli, Henry Martin y Asociados S.R.L. member of Ernst & Young Global is the independent registered public accounting firm that audits the financial statements of the Company and its subsidiaries.

Aggregate fee for professional services rendered for the Company by Pistrelli, Henry Martin y Asociados S.R.L. and other member firms of Ernst & Young Global in 2008 and 2007 in each of the following categories were:

	Year ended December 31,	
	2008	2007
	(in thousands of U.S. dollars)	
Audit fees	1,077	1,065
Audit-related fees	--	107
Tax fees	83	71
<b>Total fees</b>	<b>1,160</b>	<b>1,243</b>

Audit fees include fees associated with the annual audit of the Company and subsidiaries, statutory audits of subsidiaries required internationally, comfort letters and SEC filings in connection with our public offerings of our common stock.

Audit related fees include fees associated with the documentation assistance in connection with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Tax fees relate to tax compliance and tax advice.

Prior to our initial public offering, all audit, audit-related, and non audit services provided by our independent auditor were pre-approved by the board of directors. Since our initial public offering, all such services are pre-approved by our audit committee, which was formed at the time of our initial public offering.

ITEM 16D – EXEMPTIONS FROM LISTING STANDARDS FOR AUDIT COMMITTEES.

Not Applicable.

## ITEM 16E – PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PERSONS.

	Total Number of Shares Purchased		Average Price Paid per Share (in US\$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs		Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1						
1-Jan-08 to 31-Jan-08						
Month #2						
1-Feb-08 to 29-Jan-08						
Month #3						
1-Mar-08 to 31-Mar-08	740,190	(1)	9.66	638,971	(2)	43,866,587
Month #4						
1-Apr-08 to 30-Apr-08	32,200		10.34	32,200		43,533,769
Month #5						
1-May-08 to 31-May-08						43,533,769
Month #6						
1-Jun-08 to 30-Jun-08						43,533,769
Month #7						
1-Jul-08 to 31-Jul-08						43,533,769
Month #8						
1-Aug-08 to 31-Aug-08						43,533,769
Month #9						
1-Sep-08 to 30-Sep-08						43,533,769
Month #10						
1-Oct-08 to 31-Oct-08	2,531,108		4.39	2,531,108		32,429,823
Month #11						
1-Nov-08 to 30-Nov-08	537,415		2.53	537,415		31,070,545
Month #12						
1-Dec-08 to 31-Dec-08	183,400		3.05	183,400		30,511,987

Total	4,024,313	5.10	3,923,094
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Footnotes:

(1) Includes 101,219 shares purchased by Hazels in the open market under safe harbor 240.10b-18 of the Exchange Act.

(2) On March 17, 2008, we announced that our Board had authorized a share repurchase program which covered up to \$50.0 million of our common stock up to September 30, 2008 (the "Share Repurchase Program"). Since then, the Program has been extended twice and it currently expires on March 31, 2009.

ITEM 16F – CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not Applicable.

ITEM 16G – CORPORATE GOVERNANCE

As a foreign private issuer, as defined in Rule 3b-4 under the Exchange Act, the Company is permitted to follow certain corporate governance rules of its home country, the Bahamas, in lieu of NASDAQ’s corporate governance rules, or the NASDAQ Rules. The Company complies fully with the NASDAQ Rules, except that the Company’s corporate governance practices deviate from the NASDAQ Rules in the following ways:

- The Company does not have a board of directors with a majority of independent directors. However, the Company does have two independent directors.
- In lieu of holding regular meetings at which only independent directors are present, the Company’s entire board of directors may hold regular meetings.
- In lieu of an audit committee comprising three independent directors, the Company’s audit committee has one member, who meets the NASDAQ requirement of a financial expert.
- In lieu of a nomination committee comprising independent directors, the Company’s board of directors will be responsible for identifying and recommending potential candidates to become board members and recommending directors for appointment to board committees. Shareholders may also identify and recommend potential candidates to become board members in writing. No formal written charter has been prepared or adopted because this process is outlined in the Company’s memorandum of association.
- In lieu of a compensation committee comprising independent directors, our board of directors will be responsible for establishing the executive officers’ compensation and benefits. Under Bahamian law, compensation of the executive officers is not required to be determined by an independent committee.
- In lieu of obtaining an independent review of related party transactions for conflicts of interests, the Company’s memorandum of association provides that related party transactions must be approved by disinterested directors, and in certain circumstances, supported by a fairness opinion.
- Pursuant to the Company’s articles of association, the Company is required to obtain shareholder approval in order to issue additional securities.
- As a foreign private issuer, the Company is not required to solicit proxies or provide proxy statements to NASDAQ pursuant to NASDAQ corporate governance rules or Bahamian law.

PART III

ITEM 17 – FINANCIAL STATEMENTS

Not Applicable.



ITEM 18 – FINANCIAL STATEMENTS

The following financial statements listed below and set forth on pages F-1 through F-34, together with the report of independent registered public accounting firm are filed as part of this annual report:

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ULTRAPETROL (BAHAMAS) LIMITED AND  
SUBSIDIARIES

Consolidated Financial Statements for the years  
ended December 31, 2008, 2007 and 2006  
with Reports of Independent Registered Public Accounting  
Firm

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2008 AND 2007  
(Stated in thousands of U.S. dollars, except par value and share amounts)

	At December 31,	
	2008	2007
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 105,859	\$ 64,262
Restricted cash	2,478	-
Accounts receivable, net of allowance for doubtful accounts of \$432 and \$248 in 2008 and 2007, respectively	17,782	15,580
Receivables from related parties	363	2,804
Operating supplies	4,059	4,676
Prepaid expenses	5,294	3,108
Receivables from derivative instruments	44,152	-
Other receivables	23,073	13,804
Other assets	4,852	1,007
Total current assets	207,912	105,241
<b>NONCURRENT ASSETS</b>		
Receivables from derivative instruments	20,078	-
Other receivables	11,600	7,696
Receivables from related parties	4,873	2,280
Restricted cash	1,170	19,647
Vessels and equipment, net	552,683	452,544
Dry dock	3,953	4,428
Investment in affiliates	1,815	2,257
Intangible assets	2,174	2,961
Goodwill	5,015	5,015
Other assets	9,049	17,243
Deferred income tax assets	4,737	2,848
Total noncurrent assets	617,147	516,919
Total assets	\$ 825,059	\$ 622,160
<b>LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 21,747	\$ 16,813
Payable to related parties	15	718
Accrued interest	2,567	2,579
Current portion of long-term financial debt	43,421	17,795
Other liabilities	4,416	2,568
Total current liabilities	72,166	40,473

NONCURRENT LIABILITIES		
Long-term financial debt	369,519	314,140
Deferred income tax liabilities	6,515	10,663
Total noncurrent liabilities	376,034	324,803
Total liabilities	448,200	365,276
MINORITY INTEREST		
	4,970	3,742
SHAREHOLDERS' EQUITY		
Common stock, \$01 par value: 100,000,000 authorized shares; 29,519,936 and 33,443,030 shares outstanding in 2008 and 2007, respectively	334	334
Additional paid-in capital	268,425	266,647
Treasury stock 3,923,094 shares at cost	(19,488)	-
Accumulated earnings (deficit)	57,195	9,672
Accumulated other comprehensive income (loss)	65,423	(23,511)
Total shareholders' equity	371,889	253,142
Total liabilities, minority interest and shareholders' equity	\$ 825,059	\$ 622,160

The accompanying notes are an integral part of these consolidated financial statements  
and should be read in conjunction herewith.

## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Stated in thousands of U.S. dollars, except share and per share data)

	2008	For the years ended December 31,		2006
		2007		
<b>REVENUES</b>				
Revenues from third parties	\$ 303,575	\$ 190,842	\$	140,536
Revenues from related parties	-	2,965		4,079
Total revenues	303,575	193,807		144,615
<b>OPERATING EXPENSES (1)</b>				
Voyage expenses	(75,290)	(46,554)		(37,589)
Running costs	(89,186)	(57,953)		(40,647)
Amortization of dry docking	(3,580)	(6,598)		(7,830)
Depreciation of vessels and equipment	(34,253)	(22,883)		(16,294)
Management fees to related parties	-	-		(511)
Amortization of intangible assets	(787)	(787)		(590)
Administrative and commercial expenses	(24,396)	(20,355)		(13,905)
Other operating income (expenses)	6,513	10,944		(198)
	(220,979)	(144,186)		(117,564)
Operating profit	82,596	49,621		27,051
<b>OTHER INCOME (EXPENSES)</b>				
Financial expense	(25,128)	(20,440)		(18,921)
Other financial expenses	(5,414)	-		-
Financial loss on extinguishment of debt	-	-		(1,411)
Financial income	1,156	2,916		733
Gains (losses) on derivatives, net	8,816	(17,801)		-
Investment in affiliates	(442)	(28)		588
Other, net	(558)	(339)		859
Total other income (expenses)	(21,570)	(35,692)		(18,152)
Income from continuing operations before income taxes and minority interest	61,026	13,929		8,899
Income taxes	4,173	(4,832)		(2,101)
Minority interest	(1,228)	(739)		(1,919)
Income from continuing operations	63,971	8,358		4,879
Income (loss) from discontinued operations	(16,448)	(3,917)		5,647

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Net income	\$	47,523	\$	4,441	\$	10,526
<b>BASIC INCOME (LOSS) PER SHARE:</b>						
From continuing operations	\$	1.99	\$	0.26	\$	0.27
From discontinued operations		(0.51)		(0.12)		0.32
	\$	1.48	\$	0.14	\$	0.59
<b>DILUTED INCOME (LOSS) PER SHARE:</b>						
From continuing operations	\$	1.99	\$	0.26	\$	0.27
From discontinued operations		(0.51)		(0.12)		0.31
	\$	1.48	\$	0.14	\$	0.58
Basic weighted average number of shares		32,114,199		31,596,346		17,965,753
Diluted weighted average number of shares		32,213,741		31,923,350		18,079,091

(1) In addition to management fees to related parties, operating expenses included \$433, \$418 and \$3,163 in 2008, 2007 and 2006, respectively, from related parties.

The accompanying notes are an integral part of these consolidated financial statements and should be read in conjunction herewith.

## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Stated in thousands of U.S. dollars, except share data)

Balance	Shares amount	Common stock	Additional paid-in capital	Treasury stock	Accumulated earnings (deficit)	Accumulated other comprehensive income (loss)	Total
December 31, 2005	15,500,000	155	48,418	-	(5,295)	196	43,474
Issuance of common stock	12,500,000	125	137,375	-	-	-	137,500
Underwriting fees and issuance expenses	-	-	(12,314)	-	-	-	(12,314)
Compensation related to options and restricted stock granted	346,952	3	347	-	-	-	350
Comprehensive income:							
- Net income	-	-	-	-	10,526	-	10,526
- Effect of derivative financial instruments	-	-	-	-	-	(107)	(107)
Total comprehensive income							10,419
December 31, 2006	28,346,952	283	173,826	-	5,231	89	179,429
Issuance of common stock	5,096,078	51	96,774	-	-	-	96,825
Underwriting fees and issuance	-	-	(5,731)	-	-	-	(5,731)

expenses									
Compensation related to options and restricted stock granted									
	-	-	1,778	-	-	-	-	1,778	
Comprehensive loss:									
- Net income	-	-	-	-	4,441	-	-	4,441	
- Effect of derivative financial instruments	-	-	-	-	-	(23,600)	-	(23,600)	
Total comprehensive loss								(19,159)	
December 31, 2007	33,443,030	334	266,647	-	9,672	(23,511)	-	253,142	
Compensation related to options and restricted stock granted									
	-	-	1,778	-	-	-	-	1,778	
Repurchase of common shares									
	(3,923,094)	-	-	(19,488)	-	-	-	(19,488)	
Comprehensive income:									
- Net income	-	-	-	-	47,523	-	-	47,523	
- Effect of derivative financial instruments	-	-	-	-	-	88,934	-	88,934	
Total comprehensive income	-	-	-	-	-	-	-	136,457	
December 31, 2008	29,519,936	\$ 334	\$ 268,425	\$ (19,488)	\$ 57,195	\$ 65,423	\$	371,889	

The accompanying notes are an integral part of these consolidated financial statements and should be read in conjunction herewith.

## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Stated in thousands of U.S. dollars)

	For the years ended December 31,		
	2008	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 47,523	\$ 4,441	\$ 10,526
Adjustments to reconcile net income to net cash provided by operating activities:			
(Income) Loss from discontinued operations	16,448	3,917	(5,647)
Depreciation of vessels and equipment	34,253	22,883	16,294
Amortization of dry docking	3,580	6,598	7,830
Expenditure for dry docking	(3,105)	(2,724)	(4,678)
Net (gain) losses on derivatives, net	(8,816)	17,801	-
Debt issuance expense amortization	1,015	673	750
Minority interest in equity of subsidiaries	1,228	739	1,919
Amortization of intangible assets	787	787	590
Financial loss on extinguishment of debt	-	-	1,411
(Gain) on disposal of assets	-	(10,282)	(630)
Net (gain) loss from investment in affiliates	442	28	(588)
Allowance for doubtful accounts	184	166	1,065
Share - based compensation	1,778	1,778	350
Changes in assets and liabilities net of effects from purchase of Otto Candies companies in 2007 and Ravenscroft and UP Offshore (Bahamas) companies in 2006:			
(Increase) Decrease in assets:			
Accounts receivable	(2,386)	(2,115)	(4,861)
Receivable from related parties	(152)	529	3,266
Other receivables, operating supplies, prepaid expenses and receivables from derivative instruments	(19,471)	(12,057)	176
Other	4,680	1,199	(138)
Increase (Decrease) in liabilities:			
Accounts payable	4,934	3,497	(2,068)
Payable to related parties and other payables	(3,020)	2,072	(2,890)
Other	-	521	(647)
Net cash provided by operating activities from continuing operations	79,902	40,451	22,030
Net cash (used in) provided by operating activities from discontinued operations	(8,645)	1,449	6,771
Total cash flows from operating activities	71,257	41,900	28,801
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			

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Purchase of vessels and equipment (\$46,184, \$30,290 and \$11,210 in 2008, 2007 and 2006 for vessels in construction)	(135,876)	(166,568)	(42,482)
Purchase of Otto Candies companies and Ravenscroft and UP Offshore (Bahamas) companies, net of cash acquired	-	(13,772)	(59,014)
Proceeds from disposals of assets	-	18,447	2,630
Decrease (Increase) in funding collateral of forward freight agreements	54,020	(54,020)	-
Cash settlement paid on forward freight agreements	(5,408)	(6,082)	-
Decrease in loan to affiliate	-	-	11,391
Purchase of minority interest in UABL Limited	-	-	(6,225)
Other	556	-	(112)
Net cash (used in) investing activities from continuing operations	(86,708)	(221,995)	(93,812)
Net cash (used in) provided by investing activities from discontinued operations	(1,283)	21,347	(10,217)
Total cash flows used in investing activities	(87,991)	(200,648)	(104,029)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Scheduled repayments of long-term financial debt	(17,795)	(6,881)	(7,178)
Early repayment of long-term financial debt	-	(25,300)	(25,899)
Net decrease in short-term financial debt	(15,000)	-	-
Decrease in restricted cash	-	-	3,273
Proceeds from shares public offering, net of issuance costs	-	91,094	125,186
Payment of redeemable preference shares of subsidiary	-	-	(4,303)
Proceeds from long-term financial debt	113,800	145,122	-
Funds used in repurchase of common shares	(19,488)	-	-
Redemption of minority interest	-	(88)	(2,600)
Other	(3,186)	(1,585)	(517)
Net cash provided by financing activities from continuing operations	58,331	202,362	87,962
Total cash flows from financing activities	58,331	202,362	87,962
Net increase in cash and cash equivalents	41,597	43,614	12,734
Cash and cash equivalents at the beginning of year (including \$1,448, \$218 and \$14 related to discontinued operations)	\$ 64,262	\$ 20,648	\$ 7,914
Cash and cash equivalents at the end of year (including \$2,546, \$1,448 and \$218 related to discontinued operations)	\$ 105,859	\$ 64,262	\$ 20,648

The accompanying notes are an integral part of these consolidated financial statements and should be read in conjunction herewith.

ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in thousands of U.S. dollars, except per share data and otherwise indicated)

1. NATURE OF OPERATIONS AND CORPORATE ORGANIZATION

Nature of operations

Ultrapetrol (Bahamas) Limited (“Ultrapetrol Bahamas”, “Ultrapetrol”, “the Company”, “us” or “we”) is a company organized and registered as a Bahamas Corporation since December 1997.

We are a shipping transportation company serving the marine transportation needs of our clients in the markets on which we focus. We serve the shipping markets for grain, forest products, minerals, crude oil, petroleum, and refined petroleum products, as well as the offshore oil platform supply market, through our operations in the following three segments of the marine transportation industry. In our River Business we are an owner and operator of river barges and push boats in the Hidrovia region of South America, a region of navigable waters on the Parana, Paraguay and Uruguay Rivers and part of the River Plate, which flow through Brazil, Bolivia, Uruguay, Paraguay and Argentina. In our Offshore Supply Business we own and operate vessels that provide logistical and transportation services for offshore petroleum exploration and production companies, in the North Sea and the coastal waters of Brazil. In our Ocean Business, we are an owner and operator of oceangoing vessels that transport petroleum products and dry cargo.

Initial public offering (IPO)

On October 18, 2006, the Company completed its initial public offering. In this offering the Company issued and sold 12,500,000 common shares, par value \$0.01 per share for \$11.00 per share. The proceeds for the Company, after underwriting fees and offering expenses totaled \$125,186.

Subsequent to the IPO, an aggregate of 232,712 shares were sold by our Shareholders Inversiones Los Avellanos S.A., Hazels (Bahamas) Investment Inc. and Solimar Holdings Ltd. (collectively the “Original Shareholders”) in connection with the underwriters’ exercise of their over-allotment option. The Company did not receive any proceeds from the sale of the over-allotment shares.

Follow on of shares issuance

On April 19, 2007, the Company issued and sold 5,096,078 common shares par value \$0.01 per share for \$19.00 per share through a public offering. The proceeds for the Company after underwriting fees and offering expenses totaled \$91,094.

On the same date, one of the Original Shareholders sold 7,553,922 shares (including 1,650,000 shares for the exercise of the over-allotment option from the underwriters) of our common stock for \$19.00 per share. The Company did not receive any proceeds from the sale of any shares sold by this shareholder.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation and principles of consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The consolidated financial statements include the accounts of the Company and its subsidiaries, both majority and wholly owned. Significant intercompany accounts and transactions have been eliminated in this consolidation. Investments in 50% or less owned affiliates, in which the Company exercises significant influence, are accounted for by the equity method.

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

b) Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the years. Significant estimates have been made by management, including the allowance for doubtful accounts, insurance claims receivable, useful lives and valuation of vessels, hedge accounting, recoverability of deferred tax assets and certain accrued liabilities. Actual results may differ from those estimates.

c) Revenues and related expenses

Revenue is recorded when services are rendered, the Company has a signed charter agreement or other evidence of an arrangement, prices are fixed or determinable and collection is reasonably assured.

Revenues are earned under time charters, bareboat charters, consecutive voyage charters or affreightment / voyage contracts. Revenue from time charters and bareboat charters is earned and recognized on a daily basis. Revenue from affreightment / voyage contracts and consecutive voyage charters is recognized based upon the percentage of voyage completion. A voyage in the River Business is deemed to commence upon the departure of the discharged barge of the previous voyage and is deemed to end upon the completion of discharge of the current voyage. The percentage of voyage completion is based on the miles transited at the balance sheet date divided by the total miles expected for the voyage. The position of the barge at the balance sheet date is determined by locating the position of the pushboat with the barge in tow through the use of a global positioning system ("GPS").

Demurrage income represents payments made by the charterer to the vessel owner when loading or discharging time exceeds the stipulated time in the voyage charter and is recognized as it is earned.

From time to time we provide ship salvage services under Lloyd's Standard Form of Salvage Agreement ("LOF"). The Company recognizes costs as incurred on these LOF services. Revenue is recorded at the time the LOF settlement or arbitration award occurs. In those cases where a minimum salvage remuneration is guaranteed or determined by contract then such minimum amount is recognized in revenue when services are rendered.

Vessel voyage costs, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Company under voyage charter arrangements. The commissions paid in advance are deferred and amortized over the related voyage charter period to the extent revenue has been deferred since commissions are earned as the Company's revenues are earned. Bunker expenses are capitalized when acquired as operating supplies and subsequently charged to voyage expenses as consumed. All other voyage expenses and other vessel operating expenses are expensed as incurred.

d) Foreign currency translation

The Company uses the US dollar as its functional currency. Operations denominated in other currencies are remeasured into US dollars in accordance with Statement of Financial Accounting Standard No. 52, Foreign Currency Translation ("SFAS 52"). Receivables and payables denominated in foreign currencies are translated into US dollars at the rate of exchange at the balance sheet date, while revenues and expenses are translated using the average exchange rate for each month. Certain subsidiaries enter into transactions denominated in currencies other than their functional

currency. Changes in currency exchange rates between the functional currency and the currency in which a transaction is denominated are included in the consolidated statements of income in the period in which the currency exchange rate changes.

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## e) Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market instruments and overnight investments. The credit risk associated with cash and cash equivalents is considered to be low due to the high credit quality of the financial institutions with which the Company operates.

## f) Restricted cash

Certain of the Company's loan agreements require the Company to fund: (a) a loan retention account equivalent to the next loan installment (depending on the frequency of the repayment elected by the Company, i.e. quarterly or semi annually) plus interest which is used to fund the loan installments coming due, (b) a minimum cash deposit, and (c) a drydocking account which is restricted for use and can only be used for the purpose of paying for drydocking or special survey expenses.

In 2007, the Company maintains restricted cash deposits with the counterparty to cover the initial and variation margins requirements under its forward freight agreements ("FFA"). At December 31, 2007 these deposits totaled \$54,020, amount that was offset against the liability corresponding to the fair market value of the FFA amounting to \$35,519.

## g) Accounts receivable

Substantially all of the Company's accounts receivable are due from international oil companies, international grainhouses and traders. The Company performs ongoing credit evaluations of its trade customers and generally does not require collateral. Expected credit losses are provided for in the consolidated financial statements for all expected uncollectible accounts.

Changes in the allowance for doubtful accounts for the three years ended December 31, 2008, were as follow:

	For the years ended December 31,		
	2008	2007	2006
Balance at January 1	\$ 248	\$ 709	\$ 324
Provision	201	305	1,065
Recovery	(17)	(139)	-
Amounts written off (1)	-	(627)	(680)
Balance at December 31	\$ 432	\$ 248	\$ 709

(1) Accounts charged to the allowance when collection efforts cease.

## h) Insurance claims receivable

Insurance claims receivable comprise claims submitted relating to hull and machinery (H&M), protection and indemnity (P&I), loss of hire (LOH) and strike insurance coverage. They are recorded when the recovery of an insurance claim is probable. Deductible amounts related to covered incidents are expensed in the period of occurrence

of the incident. The credit risk associated with insurance claims receivable is considered low due to the high credit quality and funded status of the insurance underwriters and P&I clubs in which the Company is either a client or a member. Insurance claims receivable, included in other receivables in the accompanying balance sheets, amounts to \$ 5,313 and \$ 7,779 at December 31, 2008 and 2007, respectively.

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## i) Operating supplies

Such amounts consist principally of fuel and supplies that are recorded at the lower of cost or market and are charged to operating expenses as consumed determined on a first-in, first-out basis.

## j) Vessels and equipment, net

Vessels and equipment are stated at cost less accumulated depreciation. This cost includes the purchase price and all directly attributable costs (initial repairs, improvements and delivery expenses, interest and on-site supervision costs incurred during the construction periods). Subsequent expenditures for conversions renewals or major improvements are also capitalized when they appreciably extend the life, increase the earning capacity or improve the safety of the vessels.

Depreciation is computed net from the estimated scrap value which is equal to the product of each vessel's lightweight tonnage and estimated scrap value per lightweight ton and is recorded using the straight-line method over the estimated useful lives of the vessels. Acquired secondhand vessels are depreciated from the date of their acquisition over the remaining estimated useful life.

From time to time, the Company acquires vessels which have already exceeded the Company's useful life policy, in which case the Company depreciates such vessels based on its best estimate of such vessel's remaining useful life, typically until the next survey or certification date.

At December 31, 2008 the estimated useful life of each of the Company's major categories of assets is as follows:

	Useful life (in years)
Ocean-going vessels	24 to 27
PSVs	24
River barges and push boats	35
Furniture and equipment	5 to 10

However, when regulations place limitations over the ability of a vessel to trade, its useful life is adjusted to end at the date such regulations become effective. Currently, these regulations do not affect any of our vessels.

Considering the years of service, the condition and performance of its three Suezmax Oil/Bulk/Ore (OBOs), effective October 1, 2007 management' reviewed and extended their estimated useful lives from 24 to 27 years. The impact of this change in estimate was as follows:

	For the years ended December 31, Increase (Decrease)	
	2008	2007
Depreciation of vessels and equipment	(2,760)	(690)
Income from continuing operations	2,760	690

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Net income	2,760	690
Basic income per share from continuing operations	0.09	0.02
Diluted income per share from continuing operations	0.09	0.02

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At the time vessels are disposed of, the assets and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded in other operating income (expense).

Long-lived assets are reviewed for impairment in accordance with Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-lived Assets ("SFAS 144"), whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

k) Dry dock costs

The Company's vessels must be periodically drydocked and pass inspections to maintain their operating classification, as mandated by maritime regulations. Costs incurred to drydock the vessel are deferred and amortized using the straight-line method over the period to the next drydock, generally 24 to 36 months. Drydocking costs incurred are comprised of: painting the vessel's hull and sides, recoating cargo and fuel tanks, and performing other engine and equipment maintenance activities to bring the vessel into compliance with classification standards. The unamortized portion of dry dock costs for vessels that are sold are written off and included in the calculation of the resulting gain or loss in the year of the vessel's sale.

Expenditures for maintenance and minor repairs are expensed as incurred.

l) Investments in affiliates

These investments are accounted for by the equity method. At December 31, 2008 and 2007 this includes our interest in 50% of Puertos del Sur S.A. and OTS S.A. and in 49% of Maritima Sipsa S.A.

m) Business combinations

The Company accounts for business combinations under the provisions of Statement of Financial Accounting Standard No. 141, Business Combination ("SFAS 141"), which requires the use of the purchase method of accounting for all business combinations. The purchase method of accounting requires the Company to adjust the carrying value of the assets acquired and liabilities assumed to their fair value at the date of the purchase with any excess of purchase price over the fair value of assets acquired and liabilities assumed to be recorded as goodwill. The operating results of entities acquired are included in the accompanying consolidated statements of income from the date of acquisition.

n) Identifiable intangible assets

The Company accounts for its intangible assets in accordance with Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). The Company's intangible assets arose as a result of the Ravenscroft acquisition (see Note 3), and consist principally of a safety management system, software, and existing customer contracts, which are being amortized over useful lives ranging from three to eight years using the straight-line method.

Accumulated amortization at December 31, 2008 and 2007 amounted to \$2,164 and \$1,377, respectively and amortization for the three years ended December 31, 2008 amounted to \$787, \$787 and \$590

respectively. Amortization of intangible assets for the five years subsequent to December 31, 2008 is expected to be \$720 in 2009, \$306 in 2010, and \$175 in each of 2011, 2012 and 2013.

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## o) Goodwill

Goodwill is accounted for under the provisions of SFAS 142. Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of net identified tangible and intangible assets acquired. In accordance with SFAS 142, the Company performs an annual impairment test of goodwill and further periodic tests to the extent indicators of impairment develop between annual impairment tests. The Company's impairment review process compares the fair value of the reporting unit to its carrying value, including the goodwill related to the reporting unit. To determine the fair value of the reporting unit, the Company uses a discounted future cash flow ("DCF") approach that uses estimates for revenue, costs and appropriate discount rates, among others. These various estimates are reviewed each time the Company tests goodwill for impairment and many are developed as part of the Company's routine business planning and forecasting process. The Company believes its estimates and assumptions are reasonable; however, variations from those estimates could produce materially different results.

## p) Other assets

This account includes: (i) costs incurred to issue debt net of amortization costs, which are being amortized over the term of the debt using the effective interest rate method, and (ii) assets of discontinued operations (see Note 16).

## q) Accounts payable

Accounts payable at December 31, 2008 and 2007 consists of insurance premium payables, operating expenses, and customers advances collected, among others.

## r) Comprehensive Income (Loss)

Statement of Financial Accounting Standards No. 130 Reporting Comprehensive Income ("SFAS 130"), establishes standards for reporting comprehensive income (loss), which is defined as the change in equity arising from non-owner sources. Comprehensive income (loss) is reflected in the consolidated statement of shareholders' equity.

The components of accumulated other comprehensive income (loss) in the consolidated balance sheets were as follows:

	At December 31,	
	2008	2007
Unrealized gain (losses) on FFA	65,743	(23,800)
Unrealized gain on EURO hedge	170	182
Unrealized (losses) gain on forward fuel purchases	(490)	107
Unrealized gain (losses) on derivative financial instruments	65,423	(23,511)

At December 31, 2008, the Company expects that it will reclassify \$45,665 of net gain on FFA from accumulated other comprehensive income (loss) to earnings during the next twelve months related to FFA transactions that will

affect earnings for 2009.

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of the change in the accumulated unrealized income (losses) on derivative financial instruments were as follows:

	For the years ended December 31,		
	2008	2007	2006
Reclassification adjustments for amounts included in net income:			
– Revenues	1,498	-	-
– Voyage expenses	(379)	98	-
– Depreciation of vessels and equipment	(12)	(5)	(9)
Change in unrealized impact on:			
– FFA	88,045	(23,800)	-
– Forward fuel purchases	(218)	107	(98)
	88,934	(23,600)	(107)

## s) Derivative financial instruments

The Company from time to time uses derivative financial instruments to reduce risk from foreign currency fluctuations, changes in spot market rates for oceangoing vessels and changes in bunker fuel prices.

Statement of Financial Accounting Standards No. 133 Accounting for Derivative Financial Instruments and Hedging Activities (“SFAS 133”), requires companies to recognize all of its derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative financial instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

For derivative financial instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative financial instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the hedged transaction in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of a derivative’s change in fair value is immediately recognized in income.

Derivative financial instruments that are not designated as hedges for accounting purposes are adjusted to fair value through income.

The Company off sets fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement.



## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## t) Earnings per share

In accordance with Statement of Financial Accounting Standards No. 128, Earnings per share (“SFAS 128”) basic net income per share is computed by dividing the net income by the weighted average number of common shares outstanding during the relevant periods net of shares held in treasury. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common shares result in the issuance of such shares. In determining dilutive shares for this purpose the Company assumes, through the application of the treasury stock method, all restricted stock grants have vested, all common shares have been issued pursuant to the exercise of all outstanding stock options and all common shares have been issued pursuant to the issuance of all outstanding warrants.

Antidilutive instruments are excluded from net income per share calculations in all periods for which they are antidilutive.

The following table sets forth the computation of basic and diluted net income per share.

	For the years ended December 31,		
	2008	2007	2006
Income from continuing operations	\$ 63,971	\$ 8,358	\$ 4,879
Income (loss) from discontinued operations	(16,448)	(3,917)	5,647
Net income	47,523	4,441	10,526
Basic weighted average number of shares	32,114,199	31,596,346	17,965,753
Effect on dilutive shares:			
Options and restricted stock	52,451	234,648	56,837
Warrants issued	47,091	92,356	56,501
Diluted weighted average number of shares	32,213,741	31,923,350	18,079,091
Basic income (loss) per share:			
From continuing operations	\$ 1.99	\$ 0.26	\$ 0.27
From discontinued operations	(0.51)	(0.12)	0.32
	\$ 1.48	\$ 0.14	\$ 0.59
Diluted income (loss) per share:			
From continuing operations	\$ 1.99	\$ 0.26	\$ 0.27
From discontinued operations	(0.51)	(0.12)	0.31
	\$ 1.48	\$ 0.14	\$ 0.58

## u) Stock compensation

Statement of Financial Accounting Standard No. 123 (revised 2004) Share-Based Payments (“SFAS 123(R)”) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statements

of income based on their fair values. The Company uses the Black-Scholes valuation model and straight-line amortization of compensation expense over the requisite service periods of the grants.

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## v) Other operating income (expense)

For the three years ended December 31, 2008, this account includes:

	For the years ended December 31,		
	2008	2007	2006
Gain on sale of vessels	\$ -	\$ 10,282	\$ -
Claims against insurance companies (1)	4,334	603	-
Other	2,179	59	(198)
	\$ 6,513	\$ 10,944	\$ (198)

1. Corresponds to loss of hire insurance claims.

## w) Income taxes

The Company accounts for income taxes under the liability method in accordance with Statement of Financial Accounting Standard No. 109 Accounting for Income Taxes (“SFAS 109”) and Financial Interpretation No. 48 Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (“FIN 48”). FIN 48 was adopted on January 1, 2007 with no material impact to the Company’s consolidated financial position or its results of operations.

Under this method, deferred income tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of the Company’s assets and liabilities at each period end corresponding to those jurisdictions subject to income taxes. Deferred tax assets are recognized for all temporary items and an offsetting valuation allowance is recorded to the extent that it is not more likely than not that the asset will be realized. Deferred tax is measured based on tax rates and laws enacted or substantively enacted at the balance sheet date in any jurisdiction.

Ultrapetrol’s pre-tax income for the three years ended December 31, 2008 was taxed in foreign jurisdictions (principally Chile, Brazil, Argentina and Paraguay).

Income tax regulations in the different countries in which we operate are subject to interpretation by taxing authorities. As a result our judgment in the determination of uncertain income tax positions could be interpreted differently. In this sense, the income tax returns of our primary income tax jurisdictions remain subject to examination by related tax authorities. The tax returns are open to examination from 3 to 7 years.

## x) New accounting pronouncements

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No.141(R) changes SFAS No. 141, among others, by requiring acquiring companies to recognize, with certain exceptions, 100 percent of the fair value of assets acquired, liabilities assumed, and noncontrolling interests in acquisitions of less than a 100 percent controlling interest when the acquisition constitutes a change in control of the acquired entity requires recognition of preacquisition loss and gain contingencies at their acquisition-date fair values and requires acquisition-related

transaction costs to be expensed as incurred. SFAS No. 141(R) is required to be adopted concurrently with SFAS No.160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited.

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In December 2007, the FASB also issued SFAS No. 160 which requires that a noncontrolling interest in a consolidated subsidiary be displayed in the consolidated statement of financial position as a separate component of equity because noncontrolling interests meet the definition of equity of the consolidated entity. After control is obtained, a change in ownership interests that does not result in a loss of control will be accounted for as an equity transaction, and a change in ownership of a consolidated subsidiary that results in a loss of control and deconsolidation is a significant event that triggers gain or loss recognition, with the establishment of a new fair value basis in any remaining ownership interests. SFAS No. 160 is required to be adopted concurrently with SFAS No. 141(R) and is effective for the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. The Company has not yet determined what impact, if any, the adoption of SFAS No. 160 will have on its consolidated financial position or results of operations.

In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157, deferring the effective date of SFAS No. 157 for one year for nonfinancial assets and liabilities, except those that are recognized or disclosed in the financial statements at least annually. The Company is evaluating the impact, if any, the adoption would have on the Company's consolidated financial position or its results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133" ("SFAS 161"). SFAS 161 requires qualitative disclosures about an entity's objectives and strategies for using derivatives and quantitative disclosures about how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008, with early adoption encouraged. The Company has not yet determined what impact, if any, the adoption of SFAS 161 will have on its consolidated financial position or results of operations.

### 3. BUSINESS ACQUISITIONS

#### a) Acquisition of 100% of Ravenscroft

On March 20, 2006, we purchased, for \$11,500 all of the issued and outstanding capital stock of Ravenscroft Shipping (Bahamas) S.A. (Ravenscroft) from two of our related companies Crosstrade Maritime Inc. and Crosstrees Maritime Inc.

Ravenscroft and its affiliated entities manage the vessels in our Ocean and Offshore Business. The purpose of this acquisition was to open new business opportunities on ship management services and to eliminate the management fees paid to related parties, while bringing the costs of ship management in-house.

#### b) Acquisition of an additional 66.67% of UP Offshore (Bahamas) Ltd.

On March 21, 2006, we purchased for \$48,000, an additional 66.67% of the issued and outstanding capital stock of UP Offshore (Bahamas) Ltd., from LAIF XI Ltd. (LAIF), an affiliate of Solimar Holdings Ltd, one of our shareholders. Following the acquisition of the shares of UP Offshore (Bahamas) Ltd. from LAIF, we hold 94.45% of the issued and outstanding shares of UP Offshore (Bahamas) Ltd.

#### c) UP River (Holdings) Ltd.

On May 3, 2006, we signed an agreement with the IFC, to purchase from the IFC the 7.14% of our subsidiary UP River (Holdings) Ltd., which we did not own for a purchase price of \$6,225.

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## d) Ultracape Delaware LLC

On September 22, 2006, Ultracape (a 60% subsidiary) sold 100% of its interest in Ultracape Delaware LLC to MexPlus Puertos S.A. de C.V., a related party of our shareholder Solimar Holdings Ltd., for a total price of \$2,630. Ultrapetrol recorded a gain of \$630 from this disposition in "Other income (expense) -- Other, net".

## 4. DRY DOCK

The capitalized amounts in dry dock at December 31, 2008 and 2007 were as follows:

	At December 31,	
	2008	2007
Original book value	\$ 16,136	\$ 20,822
Accumulated amortization	(12,183)	(16,394)
Net book value	\$ 3,953	\$ 4,428

## 5. VESSELS AND EQUIPMENT, NET

The capitalized cost of the vessels and equipment, and the related accumulated depreciation at December 31, 2008 and 2007 were as follows:

	At December 31,	
	2008	2007
Ocean-going vessels	\$ 233,816	\$ 228,090
River barges and pushboats	237,338	172,041
PSVs	113,894	113,862
Construction of PSV in progress	24,059	19,609
Advances for PSV construction	59,920	18,226
Furniture and equipment	7,111	6,784
Building, land and operating base	12,024	11,327
Yard construction in progress	23,888	5,770
Advances to vendors	4,810	6,941
Total original book value	716,860	582,650
Accumulated depreciation	(164,177)	(130,106)
Net book value	\$ 552,683	\$ 452,544

In 2008, 2007 and 2006 we capitalized interest on our construction in progress in the amounts of \$3,230, \$2,403 and \$2,299, respectively.

ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ACQUISITIONS AND DISPOSALS

Ocean Business

On October 19, 2007, we purchased the Princess Marisol, a 166,000 dwt Capesize vessel, for a total purchase price of \$57,000.

On July 10, 2007, we sold our Aframax vessel Princess Marina, for a total sale price of \$18,090 net of commissions. The gain on sale of vessel was \$10,282.

In the last quarter of 2006, the Company purchased two oil product tankers, named Alejandrina with a carrying capacity of 9,219 dwt and Amadeo with a carrying capacity of 39,530 dwt, for an aggregate purchase price of \$36,100.

River Business

During 2008, the Company purchased 45 Mississippi barges, two 7,200 BHP push-boats and one 3,800 BHP push-boat for an aggregate purchase price of \$17,700. The Company has also incurred \$11,629 in additional direct costs relating to these acquisitions.

In 2007, the Company purchased 12 Mississippi barges for an aggregate purchase price of \$900 and incurred additional costs of \$64.

On March 7, 2007, the Company through its subsidiaries in the River Business acquired all of the issued and outstanding shares of Candies Paraguayan Ventures LLC ("CPV"), a US limited liability company, and Compañía Paraguaya de Transporte Fluvial S.A. ("CPTF"), a Paraguayan company, (the "Otto Candies acquisition") for \$13,797 in cash. At time of acquisition, CPV and CPTF owned 12 jumbo river barges and 1 push-boat valued at \$15,000 and had cash of \$25, other current assets of \$496 and outstanding commercial liabilities and deferred tax liabilities of \$404 and \$354, respectively. The excess of the fair value of the net assets over the purchase price paid of \$966 was re-allocated on a pro-rata basis to the fair value of the barges and push-boat acquired.

In 2007 the Company, through its subsidiaries in the River Business, purchased 33 Mississippi barges and a push boat for a total contract price of \$7,852. The Company had also incurred \$5,980 in additional direct costs relating to the acquisition.

In 2007 and 2008, we contracted to purchase 19 new heavy fuel engines for some of our large and medium sized pushboats in our River Business in addition to the six already purchased in 2006 and already received. The total purchase price of the engines is \$24,140 with deliveries ranging between March and December 2009. At December 31, 2008 we had paid \$4,810 as advances under these contracts, which was recorded under Advances to vendors.

At December 31, 2008 the Company had remaining commitments of \$19,312 on non-cancelable contracts to purchase 19 new heavy fuel engines.

Offshore Supply Business

On December 21, 2007, UP Offshore (Bahamas) Ltd. signed two contracts with a shipyard in China to construct two PSVs, with deliveries in 2009 and 2010. The price for each new PSV to be constructed in China is \$26,400, to be paid in five installments of 20% of the contract price each, prior to delivery. As of December 31, 2008, UP Offshore (Bahamas) Ltd. paid two installments amounting \$21,040, which are recorded as Advances for PSV construction.

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On February 21 and June 13, 2007, UP Offshore (Bahamas) Ltd. signed shipbuilding contracts with a shipyard in India for construction of four PSV with a combined cost of \$88,052, with contracted deliveries in 2009 and 2010. The purchase price will be paid in five installments of 20% of the purchase price each, prior to delivery. As of December 31, 2008, UP Offshore (Bahamas) Ltd. had paid installments on its PSV under construction in India totaling \$35,221, which are recorded under Advances for PSV construction account.

In June 2003, UP Offshore Apoio Maritimo Ltda. (our wholly owned subsidiary in the Offshore Supply Business) signed shipbuilding contracts for construction of four PSV with EISA Estaleiro Ilha S/A (EISA), a Brazilian corporation. During November 2005 UP Offshore Apoio Maritimo Ltda. and EISA amended some conditions of the shipbuilding contracts, including the purchase price and the delivery dates. At December 31, 2008 we took delivery and placed into service three PSV (two in 2006 and one in 2007).

As of December 31, 2008, the Company had remaining commitments of \$88,251 on non-cancelable contracts for the construction of seven PSV (four in India, two in China and one in Brazil) scheduled for delivery in 2009 and 2010.

## 6. LONG-TERM DEBT AND OTHER FINANCIAL DEBT

Balances of long-term financial debt at December 31, 2008 and 2007:

Borrower	Financial institution / Other	Due-year	Nominal value		Total
			Current	Noncurrent	
Ultrapetrol (Bahamas) Ltd.	Private Investors (Notes)	2014	\$ -	\$ 180,000	\$ 180,000
UP Offshore Apoio	DVB AG	Through 2016	1,011	9,550	10,561
UP Offshore (Bahamas) Ltd.	DVB AG	Through 2016	5,189	46,850	52,039
UP Offshore (Bahamas) Ltd.	DVB AG	Through 2017	3,000	19,000	22,000
Stanyan Shipping Inc.	Natixis	Through 2017	908	11,119	12,027
Lowrie Shipping LLC	BICE	2009	20,313	-	20,313
Ultrapetrol (Bahamas) Ltd.	BICE	Through 2009	10,000	-	10,000
Hallandale Commercial Corp.	Nordea	Through 2013	3,000	14,200	17,200
Ingatestone Holdings Inc.	DVB AG + Natixis	Through 2019	-	13,800	13,800
UABL Paraguay S.A.	IFC	Through 2020	-	25,000	25,000
UABL Paraguay S.A.	OFID	Through 2020	-	15,000	15,000
UABL Barges and others	IFC	Through 2020	-	35,000	35,000
December 31, 2008			\$ 43,421	\$ 369,519	\$ 412,940
December 31, 2007			\$ 17,795	\$ 314,140	\$ 331,935

Aggregate annual future payments due to the long-term financial debt were as follows:

	Year ending December 31
2009	\$ 43,421
2010	11,798
2011	11,028
2012	17,550
2013	22,750
Thereafter	306,393
Total	\$ 412,940

ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9% First Preferred Ship Mortgage Notes due 2014

On November 24, 2004, the Company completed a debt offering of \$180,000 of 9% First Preferred Ship Mortgage Notes due 2014 (the "2014 Senior Notes"), through a private placement to institutional investors eligible for resale under Rule 144A and Regulation S (the "Offering"). The net proceeds of the Offering were used to repay the 2008 Senior Notes, certain other existing credit facilities and to fund some vessel acquisitions.

Interest on the 2014 Senior Notes is payable semi-annually on May 24 and November 24 of each year. The 2014 Senior Notes are senior obligations guaranteed by the majority of the Company's subsidiaries directly involved in our Ocean and River Business. The Notes are secured by first preferred ship mortgages on 15 vessels (both ocean going and pushboats), 2 oceangoing barges and 279 river barges.

The 2014 Senior Notes are subject to certain covenants, including, among others, limiting the parent's and guarantor subsidiaries' ability to incur additional indebtedness or issue preferred stock, pay dividends to stockholders, incur liens or execute sale leasebacks of certain principal assets and certain restrictions on the Company consolidating with or merging into any other person.

Upon the occurrence of a change of control event, each holder of the 2014 Senior Notes shall have the right to require the Company to repurchase such notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest. Our indenture governing our 2014 Senior Notes describes the circumstances that are considered a change of control event.

In the first quarter of 2005 the SEC declared effective an exchange offer filed by the Company to register substantially identical senior notes to be exchanged for the 2014 Senior Notes pursuant to a registration rights agreement, to allow the 2014 Senior Notes be eligible for trading in the public markets.

Although Ultrapetrol (Bahamas) Limited, the parent company, subscribed the issued Notes, principal and related expenses will be paid through funds obtained from the operations of the Company's subsidiaries.

At December 31, 2008 the net book value of the assets pledged as a guarantee of the 2014 Senior Notes was \$97,000.

Loans with DVB Bank AG (DVB AG)

- a) Senior secured term loan facility of up to \$15,000: On January 17, 2006 UP Offshore Apoio Maritimo Ltda. (UP Offshore Apoio) as Borrower, Packet Maritime Inc. (Packet) and Padow Shipping Inc. (Padow) as Guarantors and UP Offshore (Bahamas) Ltd. (UP Offshore) as Holding Company (all of these our subsidiaries in the Offshore Supply Business) entered into a senior secured term loan facility of up to \$15,000 with DVB AG for the purposes of providing post delivery financing of our PSV named UP Agua Marinha.

This loan is divided into two tranches:

- Tranche A, amounting to \$13,000, accrues interest at LIBOR plus a margin of 2.25% per annum and shall be repaid by (i) 120 consecutive monthly installments of \$75 each beginning in March 2006 and (ii) a balloon repayment of \$4,000 together with the 120th installment.

- Tranche B, amounting to \$2,000 and accrues interest at LIBOR plus a margin of 2.875% per annum and shall be repaid by 35 consecutive monthly installments of \$56 each beginning in March 2006.

On January 24, 2007 UP Offshore Apoio and DVB AG amended and restated the margin of both tranches to 1.20% per annum effective since February 1, 2007.

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- b) Senior secured term loan facility of up to \$61,306: On December 28, 2006 UP Offshore as Borrower, Packet, Padow, UP Offshore Apoio and Topazio Shipping LLC (collectively the owners of our PSVs UP Safira, UP Esmeralda, UP Agua Marinha and UP Topazio) and Ultrapetrol (Bahamas) Limited as Guarantors entered into a senior secured term loan facility of up to \$61,306 with DVB AG for the purposes of providing post delivery re-financing of our PSVs named UP Safira, UP Esmeralda and UP Topazio.

The loan bears interest at LIBOR plus 1.20% per annum with quarterly principal and interest payments and matures in December 2016. The regularly scheduled principal payments are due quarterly and range from \$1,075 to \$1,325, with a balloon installment of \$16,000 in December 2016. If a PSV is sold or becomes a total loss, the Borrower shall prepay the loan in an amount equal to the stipulated value of such PSV, which is initially stipulated in \$18,750 and shall be reduced in the amount of \$387.5 on each repayment date.

- c) Senior secured term loan facility of up to \$25,000: On October 31, 2007 UP Offshore as Borrower entered into a senior secured term loan facility of up to \$25,000 with DVB AG for the purposes of providing post delivery re-financing of our PSV named UP Diamante.

The loan bears interest at LIBOR plus 1.50% per annum with quarterly principal and interest payments and matures in 2017. The regularly schedule payments commenced in February 2008 and includes 8 installments of \$750 each, 24 of \$500 each and 8 of \$250 each with a balloon installment of \$5,000 in November 2017.

All of these loans are secured by a first priority mortgage on the UP Safira, UP Esmeralda, UP Topazio, UP Agua Marinha and UP Diamante and are jointly and severally irrevocable and unconditionally guaranteed by Packet, Padow, UP Offshore Apoio, Topazio Shipping LLC and Ultrapetrol (Bahamas) Limited. The loans also contain customary covenants that limit, among other things, the Borrowers' ability to incur additional indebtedness, grant liens over their assets, sell assets, pay dividends, repay indebtedness, merge or consolidate, change lines of business and amend the terms of subordinated debt. The agreements governing the facility also contain customary events of default. If an event of default occurs and is continuing, DVB AG may require the entire amount of the loans be immediately repaid in full. Further, the loan agreements require until 2009 that the PSVs pledged as security have an aggregate market value of at least 117.6% of the value of the loan amounts and at all times thereafter an aggregate market value of at least 133.3% of the value of the loans.

At December 31, 2008, the combined outstanding principal balance under the loan agreements was \$84,600 and the aggregate net book value of the assets pledged was \$102,000.

Senior secured term loan with Natixis of up to \$13,616

On January 29, 2007, Stanyan Shipping Inc. (a wholly owned subsidiary in the Ocean Business and the owner of the Alejandrina) drew down an amount of \$13,616 under a loan agreement with Natixis to provide post-delivery financing secured by the vessel. The loan, which matures in February 2017, shall be repaid by 40 equal quarterly installments of \$227 with a balloon installment of \$4,536. The loan accrues interest at 6.38% per annum for the first five years of the loan and LIBOR plus 1.20% per annum thereafter.

The loan is secured by a mortgage on the Alejandrina and is guaranteed by Ultrapetrol (Bahamas) Limited. The loan also contains customary covenants that limit, among other things, the Borrower's and the Guarantors' ability to incur

additional indebtedness, grant liens over their assets, sell assets, pay dividends, repay indebtedness, merge or consolidate, change lines of business and amend the terms of subordinated debt. The agreement governing the facility also contains customary events of default.

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2008, the outstanding principal balance was \$12,027 and the aggregate net book value of the assets pledged was \$17,000.

Four-year term \$25,000 secured loan agreement with Banco BICE

On January 25, 2008, Lowrie Shipping LLC (our wholly owned subsidiary in the Ocean Business and the owner of the Princess Marisol), as Borrower, Ultrapetrol (Bahamas) Limited and Angus Shipping LLC (our wholly owned subsidiary), as Guarantors, and Tuebrook Holdings Inc. (our wholly owned subsidiary), as Pledgor entered into a four-year term, \$25,000 secured loan agreement with Banco BICE for the purpose of repaying the \$25,000 we have borrowed from Banco BICE under the revolving credit facility.

On January 29, 2008, we drew down the full amount of the loan.

The loan shall be repaid by 16 consecutive quarterly installment of \$1,562 each beginning in April 2008. The loan accrues interest at LIBOR plus 2.95% per annum.

The loan is secured by a mortgage on the Princess Marisol and is jointly and severally irrevocable and unconditionally guaranteed by Ultrapetrol (Bahamas) Limited and Angus Shipping LLC. The loan also contains customary covenants that limit, among other things, the Borrower's and the Guarantors' ability to incur additional indebtedness, grant liens over their assets, sell assets, pay dividends, repay indebtedness, merge or consolidate, change lines of business and amend the terms of subordinated debt. The loan contains various restrictive covenants including interest coverage, financial debt to shareholders' equity and financial debt to EBITDA ratios, as well as customary events of default.

The aggregate outstanding principal balance of the loan was \$20,313 at December 31, 2008, and the aggregate net book value of the asset pledged was \$47,000.

As further described in Note 18 the Company agreed with Banco BICE to fully and voluntarily prepay all of the outstanding amounts under this loan prior to April 30, 2009. Consequently, as of December 31, 2008 the Company included the outstanding principal balance of \$20,313 as current liabilities.

Revolving non-secured credit facility with Banco BICE

On October 12, 2007, we entered into a three-year, \$10,000, revolving non-secured credit facility with Banco BICE. Our obligations under this credit facility are guaranteed by three of our subsidiaries. This loan bears interest at LIBOR plus 1.625% per annum.

This revolving non-secured credit facility contains certain covenants similar to the four-year term \$25,000 secured loan agreement mentioned above.

As of December 31, 2008, we drew down \$10,000 available under this revolving non-secured credit facility which is due on January 13, 2009. The Company has renewed this loan until April 2009.

Senior secured term loan with Nordea Bank Finland PLC (Nordea Bank) of \$20,200

On November 30, 2007, Hallandale Commercial Corp. (our wholly owned subsidiary in the Ocean Business and the owner of the Amadeo) as Borrower, Ultrapetrol (Bahamas) Ltd., as Guarantor, and Tuebrook Holdings Inc. (our wholly owned subsidiary), as Pledgor, entered into a \$20,200 loan agreement with Nordea Bank for the purpose of providing post delivery financing of the vessel.

The loan shall be repaid by (i) 12 consecutive quarterly installments of \$750 each beginning in March 2008 followed by 12 consecutive quarterly installments of \$500 each, and (ii) a final balloon repayment of \$5,200 payable simultaneously with the last installment. The loan accrues interest at LIBOR plus 1.25% per annum.

ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The loan is secured by a mortgage on the Amadeo and is jointly and severally irrevocably and unconditionally guaranteed by Ultrapetrol (Bahamas) Ltd. The loan also contains customary covenants that limit, among other things, the Borrower's and the Guarantors' ability to incur additional indebtedness, grant liens over their assets, sell assets, pay dividends, repay indebtedness, merge or consolidate, change lines of business and amend the terms of subordinated debt. The agreement governing the facility also contains customary events of default.

Further, the loan agreement requires until all commitments have terminated and all amount payable have been paid in full, the fair market value of the ship shall be not less than 130% of the loan.

The aggregate outstanding principal balance of the loan was \$17,200 at December 31, 2008, and the aggregate net book value of the asset pledged was \$30,000.

Loan with DVB Bank AG (DVB AG) and Natixis

On June 24, 2008 Ingatestone Holdings Inc., as Borrower, and UP Offshore (Bahamas) Ltd., Bayshore Shipping Inc., Gracebay Shipping Inc., Springwater Shipping Inc. and Woodrow Shipping Inc. (all of these our subsidiaries in the Offshore Supply Business) and Ultrapetrol (Bahamas) Limited, as joint and several Guarantors, entered into a senior secured term loan facility of up to \$93,600 with DVB AG and Natixis, as co-lender, to finance the construction and delivery of our PSVs being constructed in India.

This loan is divided into two tranches:

- Tranche A, amounting to \$60,000, to be made available for each ship in the amount of up to \$15,000 in multiple advances for the payment of installments of the contract price due under the applicable shipbuilding contract. This tranche accrues interest at LIBOR plus a margin of 1.5% and shall be repaid by (i) 40 quarterly installments of \$250 per ship and (ii) a balloon repayment of \$5,000 together with the last installment. The first quarterly repayment shall commence on the date falling three months after the delivery date of such ship.

During the pre-delivery period, advances of Tranche A in respect of each ship shall not exceed \$3,450 per advance and in the aggregate for each ship the lesser of (i) 60% of the relevant construction cost and (ii) \$13,800.

- Tranche B, amounting to \$33,600, to be made available for each ship in the amount of up to \$8,400 in a single advance on the delivery date of such ship. This tranche accrues interest at LIBOR plus a margin of 1.75% per annum and shall be repaid by 20 quarterly installments of \$420 per ship. The first quarterly repayment shall commence on the date falling three months after the delivery date of such ship.

The loan contains customary covenants which are similar to the stipulated covenants in previous loans entered with DVB AG. The agreements governing the facility also contain customary events of default. If an event of default occurs and is continuing, DVB AG and Natixis may require the entire amount of the loans be immediately repaid in full.

In 2008, we drew down \$13,800 of the Tranche A applicable to our PSVs under construction in India.



ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loan with International Finance Corporation (“IFC”)

a) Loan facility up to \$25,000

On September 15, 2008 UABL Paraguay S.A. (our subsidiary in the River Business), as Borrower, and IFC entered into a loan agreement to partially finance: (i) the replacement of existing pushboat engines and conversion of pushboats to install such engines, (ii) the enlargement and re-bottoming of existing barges, (iii) the construction and acquisition of additional pushboats and barges and (iv) supplies and related equipment for the foregoing.

The loan shall be repaid in semi-annual installments of \$1,087 for the first 9 payments and \$1,902 for the last 8 payments, beginning in June 2012. The loan accrues interest at LIBOR plus 3% for the first payment due in December 2008. The next interest installments will be calculated considering LIBOR plus a percentage ranging between 1.875% to 3.250% obtained from the Guarantor Prospective Debt Service Coverage ratio as indicated in the agreement.

The loan is secured by a mortgage on part of our River Business fleet. The loan contains various restrictive covenants, among others, that limit the Borrower’s ability to declare or pay any dividend, incur capital expenditures, leases, enter into any derivative transaction, except hedging arrangements for fuel.

b) Loan facility up to \$35,000

On September 15, 2008 UABL Barges (Panama) Inc., UABL Towing Services S.A., Marine Financial Investment Corp. and Eastham Barges Inc. (all our subsidiaries in the River Business), as Borrowers, and IFC entered into a loan agreement to partially finance: (i) the replacement of existing pushboat engines and conversion of pushboats to install such engines, (ii) the enlargement and re-bottoming of existing barges, (iii) the construction and acquisition of additional pushboats and barges and (iv) supplies and related equipment for the foregoing.

The loan shall be repaid in semi-annual installments of \$1,522 for the first 9 payments and 2,663 for the last 8 payments, beginning in June 2012. The loan accrues interest at LIBOR plus 3% for the first payment due on December 2008. The next interest installments will be calculated considering LIBOR plus a percentage ranging between 1.875% to 3.250% obtained from the Guarantor Prospective Debt Service Coverage ratio as indicated in the agreement.

The loan is secured by a mortgage on part of our River Business fleet. The loan contains various restrictive covenants, among others, that limit the each Borrower’s ability to declare or pay any dividend, incur capital expenditures, leases, enter into any derivative transaction, except hedging arrangements for fuel.

Loan with OPEC FUND FOR INTERNATIONAL DEVELOPMENT (“OFID”)

On November 28, 2008 UABL Paraguay S.A. (our subsidiary in the River Business), as Borrower, and OFID entered into a loan agreement of up to \$15,000 to partially finance: (i) the replacement of existing pushboat engines and the conversion of pushboats to install such engines, (ii) the enlargement and re-bottoming of existing barges, (iii) the construction and acquisition of additional pushboats and barges and (iv) supplies and related equipment for the foregoing;



ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The loan shall be repaid in semi-annual installments of \$652 for the first 9 payments and 1,141 for the last 8 payments, beginning in June 2012. The loan accrues interest at LIBOR plus 3% for the first disbursement due on June 2009. The next interest installment will be calculated considering LIBOR plus the percentage obtained from the Guarantor Prospective debt service coverage ratio.

The loan is secured by a mortgage on a portion of our River Business fleet. The loan contains various restrictive covenants, among others, that limit the Borrower's ability to declare or pay any dividend, incur capital expenditures, leases, enter into any derivative transaction, except hedging arrangements for fuel.

At December 31, 2008, the outstanding principal balance under the loan agreement with OFID and IFC was \$75,000 and the aggregate net book value of the assets pledged was \$55,000.

Loans with IFC and KfW entered into by UABL Barges and UABL Paraguay

In connection with the 2006 IPO described in Note 1, the Company prepaid outstanding debt in the amount of \$25,899 which resulted in a loss on extinguishment of \$1,411.

## 7. FINANCIAL INSTRUMENTS

On September 16, 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. The Company adopted SFAS No. 157 effective January 1, 2008, with no material impact on the Company's consolidated financial position or its results of operations.

On October 10, 2008, the FASB issued FASB Staff Position No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS No. 157 in a market that is not active and illustrates key considerations in determining the fair value of a financial asset when the market for the financial asset is not active. FSP 157-3 had no impact on the Company's consolidated financial position or its results of operations.

The fair value of an asset or liability, as defined by SFAS No. 157, is the price that would be received to sell an asset or transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and defines three levels of inputs that may be used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs derived from observable market data. Level 3 inputs are unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The Company's assets and liabilities as of December 31, 2008 that are measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3
FFA	\$ -	\$ 65,743	\$ -
Forward fuel purchases	\$ -	\$ (490)	\$ -
Forward currency exchange contracts	\$ -	\$ 2,398	\$ -

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 ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The estimated fair value of the Company's other financial assets and liabilities were as follows:

	2008		At December 31		2007	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<b>Assets</b>						
Cash and cash equivalents	\$ 105,859	\$ 105,859	\$ 64,262	\$ 64,262		
Restricted cash (current and non-current portion)	3,648	3,648	55,687	55,687		
<b>Liabilities</b>						
Long term financial debt (current and non-current portion – Note 6)	\$ 412,940	\$ 277,063	\$ 331,935	\$ 326,118		

The carrying value of cash and cash equivalents approximates fair value. The fair values of long-term debt was estimated based upon quoted market prices or by using discounted cash flow analysis based on estimated current rates for similar types of arrangements. Generally, the carrying value of variable interest rate debt, approximates fair value. Considerable judgment was required in developing certain of the estimates of fair value and, accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

On February 15, 2007, the FASB issued No. 159, The Fair Value Option for Financial Assets and Liabilities – Including an amendment of FASB Statement No. 155. SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities, and certain non-financial instruments that are similar to financial instrument, at fair value. SFAS No. 159 became effective for the Company on January 1, 2008 and the Company did not elect the fair value option under this standard.

**Credit risk**

The Company believes that no significant credit risk exists with respect to the Company's cash due to the spread of this risk among various different banks and the high credit status of these counterparties. The Company is also exposed to credit risk in the event of non-performance by counterparties to derivative instruments. However, the Company limits this exposure by entering into transactions with counterparties that have high credit ratings. Credit risk with respect to accounts receivable is reduced by the Company by chartering its vessels to established international charterers.

**8. DERIVATIVE INSTRUMENTS**

Assets and liabilities arising from outstanding derivative positions are included in the accompanying consolidated balance sheets as receivables from derivative instruments and other liabilities, as follows:

	At December 31, 2008		
	Current receivables from derivative	Noncurrent receivables from derivative	Current other liabilities

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	instruments		instruments			
FFA	\$	41,754(1)	\$	20,078	\$	-
Forward fuel purchases		-		-		490
Forward currency exchange contracts		2,398		-		