

**FAR-EASTERN SHIPPING COMPANY PLC.
AND ITS SUBSIDIARIES**

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

**For the three-month period ended 31 March 2014
(unaudited)**

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Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and the Board of Directors
FAR-EASTERN SHIPPING COMPANY PLC.

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of FAR-EASTERN SHIPPING COMPANY PLC (the "Company") and its subsidiaries (the "Group") as at 31 March 2014, and the related consolidated interim condensed statements of profit or loss, comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and fair presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Audited entity: Far -Eastern Shipping Company PLC. (FESCO).

Incorporated under the Laws of the Russian Federation on the basis of the act of the Head of Administration of Frunzenskiy district of Vladivostok (Primorskiy region) on 3 December 1992 №467 AOO.

Entered in the Unified State Register of Legal Entities on 28 December 2007 by Vladivostok Inter-Regional Tax of Frunzenskiy district of the Ministry for Taxes and Duties of the Russian Federation, Registration No.1022502256127, Certificate series 25 No.002932105.

29, Serebryanicheskaya emb., Moscow, Russia, 109028.

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 31 March 2014 and for the three-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Akylbek Y.A.

Director, (power of attorney dated 1 October 2013 No. 75/13)

ZAO KPMG

29 May 2014

Moscow, Russian Federation

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

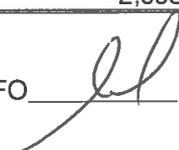
Consolidated Interim Condensed Statement of Financial Position
As at 31 March 2014
(unaudited)

USD mln	Note	31 March 2014	31 December 2013
ASSETS			
Non-current assets			
Fleet	8	94	91
Rolling stock	9	391	442
Other tangible fixed assets	10	337	361
Goodwill	7	238	260
Investments in associates and joint ventures	11	348	370
Other non-current assets	12	164	165
Total non-current assets		1,572	1,689
Current assets			
Inventories		34	30
Accounts receivable	13	144	165
Current tax assets		12	14
Assets held for sale		-	4
Other current assets		3	5
Cash and cash equivalents	14	348	191
Total current assets		541	409
Total assets		2,113	2,098
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	18	57	57
Share premium		777	777
(Accumulated losses)/ retained earnings		(4)	9
Reserves		(325)	(211)
Equity attributable to owners of the Company		505	632
Non-controlling interests		9	9
Total equity		514	641
Non-current liabilities			
Long-term debt and finance lease obligations	16	1,075	1,098
Deferred tax liability		40	44
Other long-term liabilities		11	12
Total non-current liabilities		1,126	1,154
Current liabilities			
Accounts payable	15	161	132
Current tax liabilities		1	1
Short-term debt and finance lease obligations	16	311	170
Total current liabilities		473	303
Total liabilities		1,599	1,457
Total equity and liabilities		2,113	2,098

R.Sh. Alikhanov, President
Date: 29 May 2014



E.A. Shmatova, Vice President and CFO



The accompanying notes on pages 12 to 25 form an integral part of these consolidated interim condensed financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Interim Condensed Statement of Profit or Loss
For the three-month period ended 31 March 2014
(unaudited)

USD mln	Note	For the three - month period ended 31 March	
		2014	2013
Revenue	20	242	275
Operating expenses	21	(177)	(193)
Gross profit before depreciation and amortization		<u>65</u>	<u>82</u>
Depreciation and amortisation	8,9,10	(19)	(22)
Administrative expenses	22	(35)	(36)
Other income and expenses, net		1	3
Profit from operating activity		<u>12</u>	<u>27</u>
Interest expense		(28)	(20)
Foreign exchange loss		(6)	(1)
Other finance income, net	23	4	13
Share of profit of equity accounted investees	11	8	9
(Loss)/profit before income tax		<u>(10)</u>	<u>28</u>
Income tax expense	17	(3)	(7)
(Loss)/profit for the period		<u>(13)</u>	<u>21</u>
Attributable to:			
Owners of the Company		(13)	21
Non-controlling interests		-	-
Basic and diluted (loss)/earnings per share	24	USD (0.005)	USD 0.007

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FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Interim Condensed Statement of Comprehensive Income
For the three-month period ended 31 March 2014
(unaudited)

USD mln	For the three - month period ended 31 March	
	2014	2013
(Loss)/profit for the period	(13)	21
Other comprehensive loss:		
Items that will never be reclassified to profit or loss		
Effect of foreign currency translation	(114)	(32)
Other comprehensive loss for the period	(114)	(32)
Total comprehensive loss for the period	(127)	(11)
Total comprehensive loss attributable to:		
Ordinary shareholders of the Company	(127)	(10)
Non-controlling interests	-	(1)

The accompanying notes on pages 12 to 25 form an integral part of these consolidated interim condensed financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Interim Condensed Statement of Changes in Equity
For the three-month period ended 31 March 2014
(unaudited)

USD mln	Attributable to equity holders of the Company						Total	Non-controlling interests	Total equity
	Share capital (Note 18)	Share premium	Retained earnings/ (accumulated losses)	Revaluation reserve	Translation reserve				
Balance at 1 January 2013	57	777	814	13	(138)	1,523	9	1,532	
Profit for the period	-	-	21	-	-	21	-	21	
Other comprehensive loss									
Effect of foreign currency translation	-	-	-	-	(31)	(31)	(1)	(32)	
Total other comprehensive loss	-	-	-	-	(31)	(31)	(1)	(32)	
Total comprehensive loss for the period	-	-	21	-	(31)	(10)	(1)	(11)	
Transactions with owners, recorded directly in equity									
Acquisition of non-controlling interests without a change in control	-	-	(1)	-	-	(1)	-	(1)	
Correction of the cost of tangible fixed assets, net of deferred tax	-	-	6	-	-	6	-	6	
Total transaction with owners	-	-	5	-	-	5	-	5	
Balance at 31 March 2013	57	777	840	13	(169)	1,518	8	1,526	

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FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Interim Condensed Statement of Changes in Equity
For the nine-month period ended 31 March 2014
(unaudited)
(Continued)

USD mln	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Share capital (Note 18)	Share premium	Retained earnings/ (accumulated losses)	Revaluation reserve	Translation reserve	Total		
Balance at 1 January 2014	57	777	9	13	(224)	632	9	641
Loss for the period	-	-	(13)	-	-	(13)	-	(13)
Other comprehensive loss								
Effect of foreign currency translation	-	-	-	-	(114)	(114)	-	(114)
Total other comprehensive loss	-	-	-	-	(114)	(114)	-	(114)
Total comprehensive loss for the period	-	-	(13)	-	(114)	(127)	-	(127)
Balance at 31 March 2014	57	777	(4)	13	(338)	505	9	514

The accompanying notes on pages 12 to 25 form an integral part of these consolidated interim condensed financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Interim Condensed Statement of Cash Flows
For the three-month period ended 31 March 2014
(unaudited)

USD mIn	Note	For the three-month period ended 31 March	
		2014	2013
Cash flows from operating activities			
(Loss)/profit for the period		(13)	21
Adjustments for:			
Depreciation and amortisation		19	22
Loss/(gain) on disposal of tangible fixed assets		1	(1)
Foreign exchange loss		6	1
Net finance costs		24	7
Share of profit of equity accounted investees		(8)	(9)
Other income and expenses, net		2	-
Income tax expense		3	7
Cash from operating activities before changes in working capital and provisions		34	48
Change in inventories		(5)	1
Change in trade and other receivables		21	(21)
Change in trade and other payables		5	11
Cash flows from operations before income taxes paid		55	39
Income tax paid		(4)	(7)
Cash flows generated from operating activities		51	32

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FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Interim Condensed Statement of Cash Flows
For the three-month period ended 31 March 2014
(unaudited)
(Continued)

USD mln	Note	For the three-month period ended 31 March	
		2014	2013
Cash flows from investing activities			
Vessels acquired	8	(3)	(5)
Expenditure on other fixed assets	10	(15)	(5)
Proceeds on disposal of fleet		5	6
Proceeds on disposal of other fixed assets		1	-
Loans received		-	15
Loan issued to shareholders		-	(14)
Finance lease received		1	1
Interest received		2	4
Net cash (used in)/ generated from investing activities		(9)	2
Cash flows from financing activities			
Proceeds from borrowings		142	9
Repayment of borrowings		(4)	(23)
Finance charges		(5)	(20)
Restricted deposits		-	(16)
Net cash generated from/(used in) financing activities		133	(50)
Effect of exchange rate fluctuations on cash and cash equivalents		(18)	(8)
Net increase/(decrease) in cash and cash equivalents		157	(24)
Cash and cash equivalents at the beginning of the period		191	232
Cash and cash equivalents at the end of the period		348	208

The accompanying notes on pages 12 to 25 form an integral part of these consolidated interim condensed financial statements.

**FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries**

**Notes to the Consolidated Interim Condensed Financial Statements
For the three-month period ended 31 March 2014**

1. Organisation and Trading Activities

Far-Eastern Shipping Company PLC. (FESCO or Company) was privatised and became a joint stock company governed by the laws of the Russian Federation on 3 December 1992. The Company's registered office and principal place of business is: 29 Serebryanicheskaya Naberezhnaya, Moscow, Russian Federation 109028.

The Company's immediate shareholders are several Cyprus entities and Mr Zlavudin Magomedov is considered to be the Company's ultimate controlling party.

The principal activity of FESCO and its subsidiaries (the Group) has traditionally been shipping (ship owning, ship management, chartering out and line operating). In recent years FESCO has been transformed into an intermodal logistics Group focused on Russia, offering a full range of logistical solutions through a combination of shipping, rail, trucking and port services.

2. Statement of Compliance

These consolidated interim condensed financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3. Significant Accounting Policies

A number of a new and amended IFRS become effective on 1 January 2014. Management consider that impacts of this pronouncement are not material or applicable to the Group's consolidated interim condensed Financial Statements. As a result the accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2013.

4. Estimates

The preparation of consolidated interim condensed financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these consolidated interim condensed financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied in the preparation of the consolidated financial statements as at and for the year ended 31 December 2013.

5. Financial Risk Management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2013.

6. Seasonality of Operations

The Group's operations are not subject to high seasonality.

FAR-EASTERN SHIPPING COMPANY PLC.
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Notes to the Consolidated Interim Condensed Financial Statements
For the three-month period ended 31 March 2014

7. Goodwill

	Gross amount	Accumulated impairment loss	Carrying amount
	USD mln		
At 1 January 2013	312	(32)	280
Translation difference	(8)	1	(7)
At 31 March 2013	<u>304</u>	<u>(31)</u>	<u>273</u>
At 1 January 2014	300	(40)	260
Translation difference	(35)	13	(22)
At 31 March 2014	<u>265</u>	<u>(27)</u>	<u>238</u>

8. Fleet

	Carrying value	
	31 March 2014	31 December 2013
	USD mln	
(a) Fleet	82	80
(b) Deferred dry docking expenses	12	11
	<u>94</u>	<u>91</u>
 Total deadweight tonnage	 <u>272</u>	 <u>268</u>

(a)

	Valuation	Depreciation	Net Book Value
	USD mln		
At 1 January 2013	80	-	80
Additions	5	-	5
Disposals	(2)	-	(2)
At 31 March 2013	<u>83</u>	<u>-</u>	<u>83</u>
 At 1 January 2014	 80	 -	 80
Depreciation charge for the period	-	(1)	(1)
Additions	3	-	3
At 31 March 2014	<u>83</u>	<u>(1)</u>	<u>82</u>

The Group reviews the carrying value of the fleet on an annual basis. At the interim date management analyses the carrying value of tangible fixed assets for indicators of impairment /reversal of impairment. No such indicators were identified.

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Notes to the Consolidated Interim Condensed Financial Statements
For the three-month period ended 31 March 2014

(b) Movements during the period on deferred dry docking expenses were:

	<u>Cost</u>	<u>Depreciation</u> <u>USD mln</u>	<u>Net Book Value</u>
At 1 January 2013	19	(12)	7
Depreciation charge for the period	-	(1)	(1)
Amortised dry dock write off	(3)	3	-
At 31 March 2013	<u>16</u>	<u>(10)</u>	<u>6</u>
At 1 January 2014	18	(7)	11
Additions	2	-	2
Depreciation charge for the period	-	(1)	(1)
Amortised dry dock write off	(2)	2	-
At 31 March 2014	<u>18</u>	<u>(6)</u>	<u>12</u>

9. Rolling Stock

	<u>Cost</u>	<u>Depreciation</u> <u>USD mln</u>	<u>Net Book Value</u>
At 1 January 2013	681	(183)	498
Correction of cost of tangible fixed assets	6	-	6
Additions in the period	3	-	3
Depreciation charge for the period	-	(12)	(12)
Disposals	(3)	2	(1)
Translation difference	(14)	5	(9)
At 31 March 2013	<u>673</u>	<u>(188)</u>	<u>485</u>
At 1 January 2014	647	(205)	442
Additions in the period	5	-	5
Depreciation charge for the period	-	(10)	(10)
Disposals	(2)	1	(1)
Translation difference	(62)	17	(45)
At 31 March 2014	<u>588</u>	<u>(197)</u>	<u>391</u>

Rolling stock includes assets held under finance leases with a net book value of USD 77 million (31 December 2013 – USD 85 million).

FAR-EASTERN SHIPPING COMPANY PLC.
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Notes to the Consolidated Interim Condensed Financial Statements
For the three-month period ended 31 March 2014

10. Other Tangible Fixed Assets

	Buildings and Infrastructure	Plant, Machinery and Other	Assets under construction	Total
	USD mln			
Cost				
At 1 January 2013	235	280	28	543
Additions	-	7	1	8
Disposals	-	(13)	-	(13)
Translation difference	(4)	(4)	(1)	(9)
At 31 March 2013	<u>231</u>	<u>270</u>	<u>28</u>	<u>529</u>
At 1 January 2014	224	254	31	509
Additions	-	1	9	10
Disposals	-	(1)	-	(1)
Translation difference	(16)	(13)	(2)	(31)
At 31 March 2014	<u>208</u>	<u>241</u>	<u>38</u>	<u>487</u>
Depreciation				
At 1 January 2013	31	103	-	134
Depreciation charge	2	7	-	9
Eliminated on disposal	-	(8)	-	(8)
At 31 March 2013	<u>33</u>	<u>102</u>	<u>-</u>	<u>135</u>
At 1 January 2014	39	109	-	148
Depreciation charge	2	5	-	7
Eliminated on disposal	-	(1)	-	(1)
Translation difference	(2)	(2)	-	(4)
At 31 March 2014	<u>39</u>	<u>111</u>	<u>-</u>	<u>150</u>
Net Book Value				
At 1 January 2013	<u>204</u>	<u>177</u>	<u>28</u>	<u>409</u>
At 31 March 2013	<u>198</u>	<u>168</u>	<u>28</u>	<u>394</u>
At 1 January 2014	<u>185</u>	<u>145</u>	<u>31</u>	<u>361</u>
At 31 March 2014	<u>169</u>	<u>130</u>	<u>38</u>	<u>337</u>

Plant, machinery and other fixed assets include containers held under finance lease with a net book value of USD 8 million (at 31 December 2013 – USD 9 million) and plant and machinery with a net book value of USD 4 million (at 31 December 2013 – USD 4 million).

**FAR-EASTERN SHIPPING COMPANY PLC.
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**Notes to the Consolidated Interim Condensed Financial Statements
For the three-month period ended 31 March 2014**

11. Investments in Associates and Joint Ventures

Equity accounted investments represent investments in joint ventures and associates.

Name	Country of incorporati on	Percenta ge Holding	Activity	Classification
Transcontainer	Russia	24.1%	Intermodal Container Operations	Associate
“Russkaya Troyka”	Russia	50%	Intermodal Container Operations	Joint Venture
Trans Russia Agency Japan Co. Ltd	Japan	50%	Agency services	Joint Venture
International Paint (East Russia) Limited	Hong Kong	49%	Ship Paint Production	Associate
“SHOSHTRANS” JVCSC	Uzbekistan	25%	Forwarding services	Associate
MB – Fesco Trans	Cyprus	49%	Forwarding services	Associate

Movements in joint ventures and associated companies consolidated on an equity basis are as follows:

	31 March 2014	31 March 2013
	USD mln	
At the beginning of the period	370	359
Share of results of equity accounted investees	8	9
Translation differences	(30)	(9)
At the end of the period	348	359

Summary financial information for equity- accounted investees, not adjusted for the percentage ownership held by the Group:

Reporting date	Current assets	Non- current assets	Total assets	Current liabilities	Non – current liabilities	Total liabilities	Income	Expenses	Profit
As at 31 March 2014/ For three-month period ended 31 March 2014									
USD mln									
31 March	268	1,532	1,800	193	346	539	265	233	32
As at 31 March 2013/ For three-month period ended 31 March 2013									
USD mln									
31 March	369	1,662	2,031	214	480	694	310	274	36

Goodwill in amount of USD 29 million related to OJSC TransContainer is included into the investments in associates and joint ventures. Carrying value of investments in OJSC TransContainer as at 31 March 2014 amounts to USD 321 million.

The market value of OJSC TransContainer shares and GDR’s held by the Group, based on the quotations in Moscow Stock Exchange at 31 March 2014 is USD 260 million.

FAR-EASTERN SHIPPING COMPANY PLC.
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Notes to the Consolidated Interim Condensed Financial Statements
For the three-month period ended 31 March 2014

12. Other Non-Current Assets

	31 March 2014	31 December 2013
	USD mln	
Long term loan to related party, at amortized cost	147	145
Lease right	7	8
Non-current portion of finance lease receivable, at amortized cost	2	2
Prepayments for fixed assets, at cost	2	2
Other intangible assets	2	2
Other equity investments	2	5
Other non-current assets	2	3
	164	165

Loans to related party in the amount of USD 145 million represents loans to intermediate shareholder. Loans in amount of USD 137 million are repayable in December 2018 and outstanding amount is repayable in December 2020.

Prepayments for fixed assets represent prepayments for equipment.

The Group leases railroad platforms to one of its joint ventures. The lease agreement provides for ownership transfer of assets to the lessee at the end of the lease term for nominal consideration. The contractual interest rate on the platforms leased is 13.2 %.

13. Accounts Receivable

	31 March 2014	31 December 2013
	USD mln	
Trade debtors	70	84
VAT receivable	36	41
Prepayments to OJSC "Russian Railways"	8	9
Amounts due from associates and joint ventures	3	4
Other debtors and prepayments	46	48
Allowance for impairment	(19)	(21)
	144	165

14. Cash and Cash Equivalents

	31 March 2014	31 December 2013
	USD mln	
Bank accounts and cash in hand	348	191
	348	191

Increase in cash and cash equivalents as at 31 March 2014 resulted from financing obtained under bridge facility for project financing entered by the Group in March 2014 (Note 16).

FAR-EASTERN SHIPPING COMPANY PLC.
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Notes to the Consolidated Interim Condensed Financial Statements
For the three-month period ended 31 March 2014

15. Accounts Payable

	31 March 2014	31 December 2013
	USD mln	
Trade creditors	60	51
Taxes payable, other than income tax	11	10
Interest payable	37	15
Other creditors and accruals	53	56
	<u>161</u>	<u>132</u>

16. Debt and Finance Leases Obligations

Debt

	31 March 2014	31 December 2013
	USD mln	
Loans and other obligations comprise:		
<i>Secured loans</i>		
At fixed rate 1% - 5%	125	-
At fixed rate 5% - 10%	43	29
At variable rates 5%-9.5% above Libor/Euribor /Mosprime	150	150
	<u>318</u>	<u>179</u>
<i>Bonds</i>		
At coupon rate of 10.25% p.a	139	151
At interest rate 8%-8.75%	864	864
	<u>1,003</u>	<u>1,015</u>
Obligations under finance leases at fixed rate 6%-10.5%	11	12
Obligations under finance leases at fixed rate 8.37%-18.87%	54	62
	<u>65</u>	<u>74</u>
	<u>1,386</u>	<u>1,268</u>
Repayable within the next twelve months	311	170
Long term balance	1,075	1,098
	<u>1,386</u>	<u>1,268</u>

In February 2014 the Group obtained a loan of USD 17 million for financing of the working capital, including purchase of the rolling stock, refinancing of current loan obligations and finance lease payments. Repayment is scheduled after six months since the agreement was signed, however, early repayment is provided by the agreement.

As at 31 March 2014 the Group entered in bridge facility for project financing to the amount of USD 125 million. This also resulted in increase in cash and cash equivalents as at 31 March 2014 (Note 14).

Market value of Eurobonds and bonds at the reporting date was USD 749 million and USD 141 million respectively.

In April 2014 the Group paid Eurobond interest to the total amount of USD 36 million. The carrying amount of pledged under debt obligations rolling stock, fleet and other fixed assets as at 31 March 2014 was USD 257 million.

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The Group was in compliance with covenants as at 31 March 2014.

17. Current and Deferred Tax

Companies within the Group are subject to taxation in different jurisdictions. The most significant tax expense arises in entities incorporated in the Russian Federation.

	Three-month period ended 31	
	March	
	2014	2013
	USD mln	
Current tax expense		
Current period	6	11
	<u>6</u>	<u>11</u>
Deferred tax expense		
Origination and reversal of temporary differences	(3)	(4)
	<u>(3)</u>	<u>(4)</u>
Total income tax expense	<u>3</u>	<u>7</u>

Reconciliation of effective tax rate:

	Three-month period ended			
	31 March			
	2014		2013	
	USD mln	%	USD mln	%
(Loss)/profit before income tax	(10)	100	28	100
Income tax at applicable tax rate of 20% (2013: 20%)	(2)	(20)	6	20
Non-deductible expenses/non taxable income, net	5	46	1	4
	<u>3</u>	<u>26</u>	<u>7</u>	<u>24</u>

The Group's deferred tax liability mainly arises in entities incorporated in Russia and the effect of deferred taxation in other jurisdictions is not material.

18. Shareholders' Equity

	31 March	31 December
	2014	2013
	USD mln	
Authorised number of shares (1 Rouble per share)	3,643,593,000	3,643,593,000
Issued number of shares	2,951,250,000	2,951,250,000
Share capital (USD million)	<u>57</u>	<u>57</u>

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19. Business Segmental Analysis

For management purposes, the Group is organised into four major operating divisions – shipping, liner and logistics, railway services and ports. Ports are also divided into port and bunkering. The Group also includes certain companies that cannot be allocated to a specific division; these include investing and managing companies. These divisions are the basis on which the Group reports its operating segment information. The services provided by each of these divisions are as follows:

Shipping	The shipping division is involved in ship ownership, ship management, chartering out and provision of agency services. These activities are carried out on a cabotage, cross trade and import-export basis. The vessels operated by the shipping division are largely container vessels and bulk carriers.
Liner and Logistics	The Liner and logistics division operates liner services and provides freight forwarding services both for containers and break-bulk cargoes.
Railway Services	The railway services division provides services both as an operator and an agent. When acting as an operator it renders services for containerised and bulk cargoes using locomotives, railway wagons, hoppers, steel-pellet wagons and tank wagons owned by the division or leased by it under finance leases. In addition it uses rolling stock hired on short term operating leases.
Ports	The ports division owns and operates port facilities and container terminals in Russia and provides cargo handling, stevedoring, container storage and rental and related port services and facilities.
Bunkering	The bunkering division provides services of ship bunkering which involves transferring oil and fuel to and from a vessel.

Segmental reporting information is submitted to management of the Group on a regular basis as part of the management reporting process. It is used to assess the efficiency of the segments and to take decision on the allocation of resources.

Segment information for the main reportable segments of the Group for the three-month period ended 31 March 2014 is set out below.

	Liner and Shipping	Logistics	Railway services	Ports	Bunkering	Corporate	Investment in Trans- Container	Eliminations/ Adjustments	Total
	USD mln								
External sales	14	137	42	34	15	-	-	-	242
Inter-segment sales	6	-	3	10	14	-	-	(33)	-
Segment revenue	20	137	45	44	29	-	-	(33)	242
Segment expenses (*)	(17)	(138)	(33)	(25)	(26)	(10)	-	37	(212)
Segment result	3	(1)	12	19	3	(10)	-	4	30
<i>Segment non-cash items:</i>									
Depreciation and amortization	(2)	(3)	(10)	(4)	-	-	-	-	(19)
<i>Other material items of income/expense:</i>									
Other income and expenses	(1)	1	2	-	-	2	-	(3)	1
Interest expense	-	(1)	(6)	(1)	-	(25)	-	5	(28)
Share of profit of equity accounted investees	-	-	1	-	-	-	7	-	8
Income tax (expense)/benefit	2	(1)	1	(4)	(1)	-	-	-	(3)

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Segment information for the main reportable segments of the Group for the three-month period ended 31 March 2013 is set out below.

	Shipping	Liner and Logistics	Railway services	Ports	Bunkering	Corporate	Investment in Trans-Container	Eliminations/Adjustments	Total
USD mln									
External sales	11	158	72	34	-	-	-	-	275
Inter-segment sales	6	-	3	12	-	-	-	(21)	-
Segment revenue	17	158	75	46	-	-	-	(21)	275
Segment expenses (*)	(19)	(150)	(47)	(30)	-	(9)	-	26	(229)
Segment result	(2)	8	28	16	-	(9)	-	5	46
<i>Segment non-cash items:</i>									
Depreciation and amortization	(2)	(3)	(12)	(5)	-	-	-	-	(22)
<i>Other material items of income/expense:</i>									
Other income and expenses, net	1	2	1	-	-	2	-	(3)	3
Interest expense	-	(1)	(8)	(9)	-	(5)	-	3	(20)
Share of profit of equity accounted investees	-	-	1	-	-	-	8	-	9
Income tax (expense) / benefit	1	(3)	(1)	(4)	-	-	-	-	(7)

Segmental assets and liabilities

	Assets		Liabilities	
	31 March 2014	31 December 2013	31 March 2014	31 December 2013
USD mln				
Shipping (Global)	144	150	21	22
Liner and logistics (Global)	192	203	79	78
Railway services (Russia)	515	571	92	86
Ports (Russia)	457	348	208	87
Bunkering	37	19	1	-
Total of all segments	1,345	1,291	401	273
Goodwill	238	260	-	-
Other items not attributed to a specific segment	530	547	1,198	1,184
Consolidated	2,113	2,098	1,599	1,457

Other segmental information

	Acquisition of segment assets		Investments in equity accounted investees	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
USD mln				
Shipping (Global)	5	5	1	1
Liner and logistics (Global)	1	6	4	8
Railway services (Russia)	5	3	22	23
Ports (Russia)	9	1	-	-
Investment in TransContainer	-	-	321	327
	20	15	348	359

(*) Segment expenses include operating expenses and administrative expenses.

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20. Revenue

	Three-month period ended 31 March	
	2014	2013
	USD mln	
Transportation services (operators' business)	171	217
Port and stevedoring services	34	34
Bunkering	15	-
Revenue from rentals	8	12
Hire and freight	13	11
Agency fees	1	1
	242	275

21. Operating Expenses

	Three-month period ended 31 March	
	2014	2013
	USD mln	
Railway infrastructure tariff and transportation services	111	145
Payroll expenses	23	25
Bunkering	22	-
Voyage and vessel running cost	7	8
Stevedoring services	6	7
Operating lease	6	6
Non-profit based taxes	2	2
	177	193

22. Administrative Expenses

	Three-month period ended 31 March	
	2014	2013
	USD mln	
Salary and other staff related costs	23	22
Professional fees	3	4
Office rent	2	2
Other administrative expenses	7	8
	35	36

23. Other Finance Income, Net

	Three-month period ended 31 March	
	2014	2013
	USD mln	
Interest income	4	13
	4	13

24. (Loss)/Earnings per Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held by Group companies. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares.

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	Three-month period ended 31 March	
	2014	2013
	USD	
(Loss)/profit for the period	(13,419,000)	21,281,000
Weighted average number of shares in issue (note 18)	2,951,250,000	2,951,250,000
Basic (loss)/earnings per share	(0.005)	0.007
(Loss)/profit for the period, adjusted for stock option expense	(13,419,000)	19,574,000
Weighted average number of shares in issue, adjusted for potentially dilutive shares	2,951,250,000	2,943,739,158
Diluted (loss)/earnings per share	(0.005)	0.007

25. Contingencies and Commitments

(a) Taxation contingencies

The Group operates in several jurisdictions with significantly different taxation systems. Management believes that the Group's shipping and holding companies incorporated in foreign jurisdictions are not subject to taxes outside their countries of incorporation. However, there is a risk that the taxation authorities of higher tax jurisdictions may attempt to subject the Group's earnings to income taxes of a particular jurisdiction. Should the taxation authorities be successful in assessing additional taxes, late payment interest and imposing fines on this basis, the impact on these consolidated interim condensed financial statements could be significant.

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated interim condensed financial statements.

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These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated interim condensed financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(b) Business environment

Part of the Group's operations is located in the Russian Federation and Ukraine. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation and Ukraine which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated interim condensed financial statements reflect management's assessment of the impact of the Russian and Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Group's results and financial position in a manner not currently determinable. These consolidated interim condensed financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment. These consolidated interim condensed financial statements do not include any adjustments for the potential impact of events in Ukraine that have occurred after the reporting date.

26. Related Party Transactions

For the purposes of these consolidated interim condensed financial statements, parties are considered to be related if both parties are under common control or one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

During the period eight individuals were considered to be the Group's key management and directors (2013 – seven individuals). Their remuneration during the period was as follows:

	Three-month period ended	
	31 March	
	2014	2013
	USD mln	
Salaries	1	1
Bonuses	-	2
	1	3

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Statement of financial position	31 March 2014	31 December 2013	Nature of balances
	USD mln		
Associates	1	1	Trade receivables
Joint Venture Company	2	1	Trade receivables
Joint Venture Company	1	1	Loan issued
Joint Venture Company	1	1	Interest receivable
Joint Venture Company	4	5	Finance lease receivable
Related through common shareholder	145	143	Loan issued
Related through common shareholder	3	3	Other receivables
Non-consolidated subsidiaries	-	1	Trade receivables

Statement of Profit or Loss	31 March 2014	31 March 2013	Nature of transactions
	USD mln		
Associates sales	1	1	Agency services, rent and other services
Associates purchases	(2)	(2)	Agency services, rent and other expenses
Joint Venture Company purchases	(1)	(1)	Agency ,transportation and stevedoring services
Related through common shareholder	2	10	Interest income
Related through common shareholder	(1)	2	Other related services

27. Events Subsequent to the Reporting Date

There were no significant events subsequent to the reporting date other than disclosed in the notes to this financial information.