

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

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

**For the six-month and three-month periods ended 30 June 2013
(unaudited)**

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Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors

FAR-EASTERN SHIPPING COMPANY PLC.

Introduction

We have reviewed the accompanying (consolidated) interim condensed statement of financial position of Open Joint Stock Company FAR-EASTERN SHIPPING COMPANY PLC. (the "Company") and its subsidiaries (the "Group") as at 30 June 2013, and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and six-month periods ended 30 June 2013, changes in equity and cash flows for the six month periods ended 30 June 2013, and notes to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and 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 Naberezhnaya, Vladivostok, Primorskiy Kray, Russian Federation, 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 30 June 2013 and for the three- and six-month periods ended 30 June 2013 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Other matter

The corresponding figures for the three-month period ended 30 June 2012 have not been reviewed or audited.



Akylbek Y. A.

Director, power of attorney dated 1 October 2010 No. 75/10

ZAO KPMG

29 August 2013

Moscow, Russian Federation

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Interim Condensed Statement of Financial Position
As at 30 June 2013
(unaudited)

USD mln	Note	30 June 2013	31 December 2012
ASSETS			
Non-current assets			
Fleet	8	94	87
Rolling stock	9	458	498
Other tangible fixed assets	10	371	409
Goodwill	7	260	280
Other intangible assets		3	3
Investments in associates and joint ventures	11	343	359
Other equity investments		2	2
Other non-current assets	12	170	565
Total non-current assets		1,701	2,203
Current assets			
Inventories		28	26
Accounts receivable	13	204	190
Current tax assets		13	14
Assets held for sale		6	12
Other current assets		8	3
Cash and cash equivalents	14	191	232
Total current assets		450	477
Total Assets		2,151	2,680
EQUITY AND LIABILITIES			
Shareholders' equity			
	18		
Share capital		57	57
Share premium		777	777
Retained earnings		9	814
Reserves		(207)	(125)
Equity attributable to owners of the Company		636	1,523
Non-controlling interests		8	9
Total equity		644	1,532
Non-current liabilities			
Long-term debt and finance lease obligations	16	1,148	701
Deferred tax liability	17	50	57
Other long-term liabilities		14	16
Total non-current liabilities		1,212	774
Current liabilities			
Accounts payable	15	148	147
Current tax liabilities		1	2
Liabilities held for sale		4	6
Short-term debt and finance lease obligations	16	142	219
Total current liabilities		295	374
Total liabilities		1,507	1,148
Total equity and liabilities		2,151	2,680

R.Sh. Alikhanov, President
Date: 29 August 2013



M.V. Sakharov, acting Deputy CFO



The accompanying notes on pages 12 to 28 form an integral part of these consolidated interim condensed financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Interim Condensed Statements of Profit and Loss
For the six-month and three-month periods ended 30 June 2013
(unaudited)

USD mln	Note	For the six - months period ended 30 June		For the three - months period ended 30 June	
		2013	2012	2013	2012
Revenue	21	558	582	283	320
Operating expenses	22	<u>(394)</u>	<u>(391)</u>	<u>(201)</u>	<u>(212)</u>
Gross profit before depreciation and amortization		164	191	82	108
Depreciation and amortisation	8,9,10	(44)	(51)	(22)	(29)
Administrative expenses	23	(68)	(73)	(32)	(38)
Impairment loss on tangible fixed assets, net		-	(82)	-	(82)
Other income and expenses, net		-	(18)	(3)	(21)
Profit/(loss) from operating activity		<u>52</u>	<u>(33)</u>	<u>25</u>	<u>(62)</u>
Interest expense		(55)	(29)	(35)	(14)
Foreign exchange loss		(13)	(5)	(12)	(5)
Other finance income	24	21	4	8	(1)
Share of profit of equity accounted investees	11	<u>23</u>	<u>22</u>	<u>14</u>	<u>12</u>
Profit/(loss) before income tax		28	(41)	-	(70)
Income tax expense	17	<u>(14)</u>	<u>(20)</u>	<u>(7)</u>	<u>(12)</u>
Profit/(loss) for the period		<u>14</u>	<u>(61)</u>	<u>(7)</u>	<u>(82)</u>
Attributable to:					
Owners of the Company		13	(64)	(7)	(82)
Non-controlling interests		<u>1</u>	<u>3</u>	<u>-</u>	<u>-</u>
Basic earnings/(loss) per share (in USD)	25	0.005	(0.024)	(0.003)	(0.031)
Diluted earnings/(loss) per share (in USD)		0.004	(0.023)	(0.002)	(0.030)

The accompanying notes on pages 12 to 28 form an integral part of these consolidated interim condensed financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Interim Condensed Statements of Comprehensive Income
For the six-month and three-month periods ended 30 June 2013
(unaudited)

USD mln	For the six - month period ended 30 June		For the three - month period ended 30 June	
	2013	2012	2013	2012
Profit/(loss) for the period	14	(61)	(7)	(82)
Other comprehensive (loss) /income:				
Revaluation of fleet	-	(7)	-	(7)
Deferred tax charge on revaluation of fleet	-	1	-	1
Effect of foreign currency translation	(83)	(41)	(51)	(108)
Net change in fair value of available-for-sale financial asset	-	20	-	-
Other comprehensive loss for the period	(83)	(27)	(51)	(114)
Total comprehensive loss for the period	(69)	(88)	(58)	(196)
Total comprehensive loss attributable to:				
Ordinary shareholders of the Company	(68)	(91)	(58)	(196)
Non-controlling interests	(1)	3	-	-

The accompanying notes on pages 12 to 28 form an integral part of these consolidated interim condensed financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Interim Condensed Statement of Changes in Equity
For the six-month period ended 30 June 2013
(unaudited)

USD mln	Attributable to equity holders of the Company							Cash flow hedge	Total	Non- controlling interests	Total equity
	Share capital (Note 18)	Share premium (Note 18)	Treasury shares (Note 18)	Retained earnings	Revaluation reserve	Investment fair value reserve	Translation reserve				
Balance at 1 January 2012	57	999	(336)	889	30	(49)	(166)	3	1,427	14	1,441
Profit for the period	-	-	-	(64)	-	-	-	-	(64)	3	(61)
Other comprehensive income/(loss)											
Effect of foreign currency translation	-	-	-	-	-	-	(41)	-	(41)	-	(41)
Revaluation of fleet, net of deferred tax	-	-	-	-	(6)	-	-	-	(6)	-	(6)
Release from revaluation reserve	-	-	-	2	(2)	-	-	-	-	-	-
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	20	-	-	20	-	20
Disposal of available-for-sale financial assets	-	-	-	(29)	-	29	-	-	-	-	-
Total other comprehensive income/(loss)	-	-	-	(27)	(8)	49	(41)	-	(27)	-	(27)
Total comprehensive income for the period	-	-	-	(91)	(8)	49	(41)	-	(91)	3	(88)
Transactions with owners, recorded directly in equity											
Acquisition of non-controlling interests without a change in control	-	-	-	(40)	-	-	-	-	(40)	(17)	(57)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	5	5
Disposal of treasury shares	-	(229)	229	-	-	-	-	-	-	-	-
Total transaction with owners	-	-	-	(40)	-	-	-	-	(40)	(12)	(52)
Balance at 30 June 2012	57	770	(107)	758	22	-	(207)	3	1,296	5	1,301

The accompanying notes on pages 12 to 28 form an integral part of these consolidated interim condensed financial statements.

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

**Consolidated Interim Condensed Statement of Changes in Equity
For the six-month period ended 30 June 2013
(unaudited)
(Continued)**

USD mln	Attributable to equity holders of the Company					Total	Non- controlling interests	Total equity
	Share capital (Note 18)	Share premium (Note 18)	Retained earnings	Revaluation reserve	Translation reserve			
Balance at 1 January 2013	57	777	814	13	(138)	1,523	9	1,532
Profit for the period	-	-	13	-	-	13	1	14
Other comprehensive income/(loss)								
Effect of foreign currency translation	-	-	-	-	(81)	(81)	(2)	(83)
Release from revaluation reserve	-	-	1	(1)	-	-	-	-
Total other comprehensive income/(loss)	-	-	1	(1)	(81)	(81)	(2)	(83)
Total comprehensive income/(loss) for the period	-	-	14	(1)	(81)	(68)	(1)	(69)
Transactions with owners, recorded directly in equity								
Distribution to shareholders (Note 18)	-	-	(824)	-	-	(824)	-	(824)
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 (Note 9)	-	-	6	-	-	6	-	6
Total transaction with owners	-	-	(819)	-	-	(819)	-	(819)
Balance at 30 June 2013	57	777	9	12	(219)	636	8	644

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FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Interim Condensed Statements of Cash Flows
For the six-month and three-month period ended 30 June 2013
(unaudited)

USD mln	Note	For the six-month period ended 30 June		For the three-month period ended 30 June	
		2013	2012	2013	2012
Cash flows from operating activities					
Profit/(loss) for the period		14	(61)	(7)	(82)
Adjustments for:					
Depreciation and amortisation		44	51	22	29
Impairment losses		-	82	-	82
Loss/(profit) on disposal of tangible fixed assets		3	(3)	4	(2)
Share option expense/(release)		(3)	2	(1)	2
Foreign exchange differences		13	5	12	5
Net finance costs		34	26	27	15
Share of profit of equity accounted investees		(23)	(22)	(14)	(12)
Income tax expense		14	20	7	12
Cash from operating activities before changes in working capital and provisions		96	100	50	49
Change in inventories		(2)	(2)	(3)	(1)
Change in trade and other receivables		(5)	(9)	16	35
Change in trade and other payables		(9)	25	(21)	(16)
Cash flows from operations before income taxes paid		80	114	42	67
Income tax paid		(18)	(30)	(11)	(17)
Cash flows generated from operating activities		62	84	31	50

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FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Interim Condensed Statements of Cash Flows
For the six-month and three-month periods ended 30 June 2013 (Continued)
(unaudited)

	<u>Note</u>	For the six-month period ended 30 June		For the three- month period ended 30 June	
USD mln		2013	2012	2013	2012
Cash flows from investing activities					
Expenditure on vessels under construction		-	(9)	-	(4)
Vessels acquired	8	(9)	-	(4)	-
Expenditure on other fixed assets	10	(14)	(34)	(9)	(5)
Expenditure on dry-docking	8	(1)	(4)	-	(3)
Proceeds on disposal of fleet		10	9	4	9
Proceeds on disposal of other fixed assets		1	28	1	6
Other non-current investments acquired		(1)	(1)	(1)	-
Cash of subsidiaries acquired		-	18	-	-
Prepayments for investments		-	(41)	-	(41)
Dividends received		1	1	1	1
Loan issued to shareholders		(14)	-	-	1
Repayment of loans		423	8	408	-
Finance lease received		1	1	1	-
Interest received		14	6	10	2
Net cash generated from/(used in) investing activities		<u>411</u>	<u>(18)</u>	<u>411</u>	<u>(34)</u>
Cash flows from financing activities					
Proceeds from borrowings		9	18	-	-
Proceeds from bonds		1,030	-	1,030	-
Repayment of borrowings		(643)	(109)	(620)	(45)
Distribution to shareholders (Note 18)		(824)	-	(824)	-
Finance charges		(56)	(25)	(36)	(10)
Restricted deposits		(16)	-	-	-
Financial instruments liability paid		-	(5)	-	(3)
Proceeds on sale of treasury shares		-	78	-	78
Net cash (used in)/generated from financing activities		<u>(500)</u>	<u>(43)</u>	<u>(450)</u>	<u>20</u>
Effect of exchange rate fluctuations on cash and cash equivalents		<u>(14)</u>	<u>(4)</u>	<u>(9)</u>	<u>(20)</u>
Net (decrease)/ increase in cash and cash equivalents		(41)	19	(17)	16
Cash and cash equivalents at the beginning of the period		232	232	208	235
Cash and cash equivalents at the end of the period		<u>191</u>	<u>251</u>	<u>191</u>	<u>251</u>

The accompanying notes on pages 12 to 28 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 six-month and three-month periods ended 30 June 2013**

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 intermediate shareholders are several Cyprus entities and Mr. Ziaudin 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 2012, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group also prepared consolidated interim condensed financial statements in accordance with IFRS and presented in Russian Rubles, and the separate auditor's report on which was issued on 29 August 2013.

3. Significant Accounting Policies

A number of a new and amended IFRS become effective on 1 January 2013. 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 2012.

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 2012.

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 2012.

6. Seasonality of Operations

FAR-EASTERN SHIPPING COMPANY PLC.
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Notes to the Consolidated Interim Condensed Financial Statements
For the six-month and three-month periods ended 30 June 2013

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

7. Goodwill

	<u>Gross amount</u>	<u>Accumulated impairment loss</u>	<u>Carrying amount</u>
	USD mln		
At 1 January 2012	254	(40)	214
Additions	58	-	58
Translation difference	(9)	-	(9)
At 30 June 2012	<u>303</u>	<u>(40)</u>	<u>263</u>
At 1 January 2013	320	(40)	280
Translation difference	(20)	-	(20)
At 30 June 2013	<u>300</u>	<u>(40)</u>	<u>260</u>

8. Fleet

	<u>Carrying value</u>	
	<u>30 June 2013</u>	<u>31 December 2012</u>
	USD mln	
(a) Fleet	84	80
(b) Deferred dry docking expenses	10	7
	<u>94</u>	<u>87</u>
Total deadweight tonnage	<u>296</u>	<u>283</u>

(a)

	<u>Valuation</u>	<u>Depreciation</u>	<u>Net Book Value</u>
	USD mln		
At 1 January 2012	313	-	313
Depreciation charge for the period	-	(7)	(7)
Disposals	(10)	-	(10)
Transfers from vessels under construction	57	-	57
Revaluation	(93)	4	(89)
Transfers to current assets held-for sale	(61)	3	(58)
At 30 June 2012	<u>206</u>	<u>-</u>	<u>206</u>
At 1 January 2013	80	-	80
Depreciation charge for the period	-	(1)	(1)
Additions	7	-	7
Disposals	(2)	-	(2)
At 30 June 2013	<u>85</u>	<u>(1)</u>	<u>84</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.

7 vessels with a net book value of USD 22 million are pledged as a security to guarantee the Group's obligations under ING Bank N.V loans (Note 16).

FAR-EASTERN SHIPPING COMPANY PLC.
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Notes to the Consolidated Interim Condensed Financial Statements
For the six-month and three-month periods ended 30 June 2013

(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 2012	43	(22)	21
Additions	6	-	6
Charge for the period	-	(4)	(4)
Transfers from vessels under construction	1	-	1
Transfers to current assets held-for sale	(5)	2	(3)
Amortised dry dock write off	(4)	4	-
Release on disposal of fleet	(4)	3	(1)
At 30 June 2012	<u>37</u>	<u>(17)</u>	<u>20</u>
At 1 January 2013	19	(12)	7
Additions	5	-	5
Release on disposal of fleet	(4)	3	(1)
Charge for the period	-	(1)	(1)
Amortised dry dock write off	(3)	3	-
At 30 June 2013	<u>17</u>	<u>(7)</u>	<u>10</u>

9. Rolling Stock

	<u>Cost</u>	<u>Depreciation</u> <u>USD mln</u>	<u>Net Book Value</u>
At 1 January 2012	639	(134)	505
Additions in the period	29	-	29
Depreciation charge for the period	-	(22)	(22)
Disposals	(24)	2	(22)
Translation difference	(11)	3	(8)
At 30 June 2012	<u>633</u>	<u>(151)</u>	<u>482</u>
At 1 January 2013	681	(183)	498
Correction of cost of tangible fixed assets	6	-	6
Additions in the period	9	-	9
Depreciation charge for the period	-	(22)	(22)
Disposals	(4)	1	(3)
Translation difference	(44)	14	(30)
At 30 June 2013	<u>648</u>	<u>(190)</u>	<u>458</u>

Rolling stock includes assets held under finance leases with a net book value of USD 128 million (31 December 2012 – USD 147 million).

At 30 June 2013 rolling stock with a carrying amount of USD 9 million (31 December 2012 – USD 127 million) are subject to registered debenture to secure bank loans (Note 16).

FAR-EASTERN SHIPPING COMPANY PLC.
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Notes to the Consolidated Interim Condensed Financial Statements
For the six-month and three-month periods ended 30 June 2013

10. Other Tangible Fixed Assets

	Buildings and Infrastructure	Plant, Machinery and Other	Assets under construction	Total
	USD mln			
Cost				
At 1 January 2012	79	161	25	265
Acquisition through a business combination	119	122	2	243
Additions	-	10	3	13
Transfer	-	3	(3)	-
Disposals	(1)	(2)	-	(3)
Translation difference	(10)	(14)	-	(24)
At 30 June 2012	187	280	27	494
At 1 January 2013	235	280	28	543
Additions	-	12	1	13
Disposals	(1)	(18)	-	(19)
Translation difference	(14)	(12)	(1)	(27)
At 30 June 2013	220	262	28	510
Depreciation				
At 1 January 2012	24	80	-	104
Depreciation charge	5	12	-	17
Eliminated on disposal	-	(1)	-	(1)
Translation difference	(1)	(3)	-	(4)
At 30 June 2012	28	88	-	116
At 1 January 2013	31	103	-	134
Depreciation charge	4	14	-	18
Eliminated on disposal	-	(10)	-	(10)
Translation difference	(1)	(2)	-	(3)
At 30 June 2013	34	105	-	139
Net Book Value				
At 1 January 2012	55	81	25	161
At 30 June 2012	159	192	27	378
At 1 January 2013	204	177	28	409
At 30 June 2013	186	157	28	371

Plant, machinery and other fixed assets include containers held under finance lease with a net book value of USD 11 million (at 31 December 2012 – USD 15 million) and plant and machinery with a net book value of USD 5 million (at 31 December 2012 – USD 2.8 million).

At 30 June 2013 fixed assets with a carrying amount of USD 29 million (31 December 2012 – USD 66 million) are pledged as a security to guarantee the Group's loan obligations (Note 16).

FAR-EASTERN SHIPPING COMPANY PLC.
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Notes to the Consolidated Interim Condensed Financial Statements
For the six-month and three-month periods ended 30 June 2013

11. Investments in Associates and Joint Ventures

Equity accounted investments represent investments in joint ventures and associates.

<u>Name</u>	<u>Country of incorporation</u>	<u>Percentage Holding</u>	<u>Activity</u>
Transcontainer	Russia	23.67%	Intermodal Container Operations
"Russkaya Troyka"	Russia	50%	Intermodal Container Operations
Trans Russia Agency Japan Co. Ltd	Japan	50%	Agency services
International Paint (East Russia) Limited	Hong Kong	49%	Ship Paint Production
"SHOSHTRANS" JVCSC	Uzbekistan	25%	Forwarding services
MB – Fesco Trans	Cyprus	49%	Forwarding services
FESCO BLG Automobile Logistics Russia Limited	Cyprus	50%	Agency stevedoring services

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

	<u>30 June 2013</u>	<u>30 June 2012</u>
	<u>USD mln</u>	
At the beginning of the period	359	105
Share of results of equity accounted investees	23	22
Consolidation of VMTP	-	(90)
Additions	-	263
Dividends received	(12)	(9)
Translation differences	(27)	(15)
At the end of the period	<u>343</u>	<u>276</u>

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

<u>Reporting date</u>	<u>Current assets</u>	<u>Non-current assets</u>	<u>Total assets</u>	<u>Current liabilities</u>	<u>Non – current liabilities</u>	<u>Total liabilities</u>	<u>Income</u>	<u>Expenses</u>	<u>Profit</u>
As at 30 June 2013/ For six-month period ended 30 June 2013									
USD mln									
30 June	402	1,619	2,021	290	437	727	638	(551)	87

<u>Reporting date</u>	<u>Current assets</u>	<u>Non-current assets</u>	<u>Total assets</u>	<u>Current liabilities</u>	<u>Non – current liabilities</u>	<u>Total liabilities</u>	<u>Income</u>	<u>Expenses</u>	<u>Profit/(loss)</u>
As at 31 December 2012/ For six-month period ended 30 June 2012									
USD mln									
31 December	339	1,706	2,045	394	312	706	562	(480)	82

Goodwill in amount of USD 42 million related to TransContainer and FESCO BLG is included into the investments in associates and joint ventures.

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The market value of OJSC TransContainer shares and GDR's held by the Group, based on the quotations in Moscow Stock Exchange at 30 June 2013 is USD 301 million.

The Group has analysed the qualitative factors related to the exceed of carrying value over market value, and did not performed detailed analysis of the recoverable amount. Group management will continue to monitor fluctuations in market value.

12. Other Non-Current Assets

	<u>30 June 2013</u>	<u>31 December 2012</u>
	<u>USD mln</u>	
Long term loan to related party, at amortized cost	135	542
Lease right	9	10
Restricted deposits	16	-
Non-current portion of finance lease receivable, at amortized cost	3	5
Prepayments for fixed assets, at cost	3	2
Other non-current assets	4	4
Prepayment for investment, at cost	-	2
	<u>170</u>	<u>565</u>

Loan to related party in the amount of USD 135 million represents loans to intermediate shareholder and repayable in September 2014.

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

	<u>30 June 2013</u>	<u>31 December 2012</u>
	<u>USD mln</u>	
Trade debtors	82	77
VAT receivable	48	36
Prepayments to OJSC "Russian Railways"	13	17
Amounts due from associates and joint ventures	6	2
Dividends receivable	10	-
Other debtors and prepayments	68	86
Allowance for impairment	(23)	(28)
	<u>204</u>	<u>190</u>

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14. Cash and Cash Equivalents

	30 June 2013	31 December 2012
	USD mln	
Bank accounts and cash in hand	191	232
	<u>191</u>	<u>232</u>

15. Accounts Payable

	30 June 2013	31 December 2012
	USD mln	
Trade creditors	68	57
Taxes payable, other than income tax	12	12
Interest payable	14	3
Short term share based payments (Note 19)	-	2
Other creditors and accruals	54	73
	<u>148</u>	<u>147</u>

16. Debt and Finance Leases Obligations

Debt

	30 June 2013	31 December 2012
	USD mln	
Loans and other obligations comprise:		
<i>Secured loans</i>		
At fixed rate 5% - 10%	15	198
At variable rates 0.25%-5% above Libor/Euribor /Mosprime	41*	52
At variable rates 5%-9.5% above Libor/Euribor /Mosprime	140	540
	<u>196</u>	<u>790</u>
<i>Unsecured loans</i>		
At fixed rate 1.5%-5%	1	1
	<u>1</u>	<u>1</u>
<i>Bonds</i>		
At coupon rate of 10.25% p.a	151	-
At interest rate 8%-8.75%	864	-
	<u>1,015</u>	<u>-</u>
Obligations under finance leases at fixed rate 6%	15	22
Obligations under finance leases at fixed rate 7.7% - 18.3%	63	107
	<u>78</u>	<u>129</u>
	<u>1,290</u>	<u>920</u>
Repayable within the next twelve months	142	219
Long term balance	1,148	701
	<u>1,290</u>	<u>920</u>

* The bank loan amounted to USD 12 million was repaid in August 2013.

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The Group obtained a loan of USD 140 million structured through a number of linked forward and swap agreements with banks for its 23.67% share in OJSC TransContainer. Repayments are scheduled in four equal quarterly installments starting 12 months from the date of agreements, and the shares of Transcontainer were transferred as collateral for the banks to secure the Group's obligations under the agreements in conjunction with guarantees issued by a related party to the banks. The proceeds from the agreements were subsequently issued to a related party, which is an intermediate shareholder of Fesco.

After the reporting date, the Group increased the balance of restricted deposits up to USD 30 million as OJSC TransContainer shares fall below fixed level for pledge.

In April and May 2013 the Group issued Eurobonds denominated in US dollars for a total amount of USD 875 million. USD 550 million will be repaid in 2018 and subject to interest at 8.00%. USD 325 million will be repaid in 2020 and subject to interest at 8.75%. The notes are guaranteed on a senior secured basis by certain subsidiaries and parent companies of the Group.

In June 2013 the Group issued Russian rouble denominated exchange-traded, non-convertible bonds for a total amount of RUB 5 billion (approximately USD 153 million). The three-year bonds pay coupon rate of 10.25% p.a. for the period to maturity. The bonds have a call option in 1.5 years from the placement date at a price of 102.00% from the nominal value.

Fixed assets pledged as a security for loans are disclosed in Notes 8,9,10.

The Group was in compliance with covenants as at 30 June 2013.

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.

	Six-month period ended 30 June		Three-month period ended 30 June	
	2013	2012	2013	2012
	USD mln		USD mln	
Current tax expense				
Current period	17	29	6	19
	17	29	6	19
Deferred tax expense				
Origination and reversal of temporary differences	(3)	(9)	1	(7)
	(3)	(9)	1	(7)
Total income tax expense	14	20	7	12

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Reconciliation of effective tax rate:

	Six-month period ended 30 June				Three-month period ended 30 June			
	2013		2012		2013		2012	
	USD mln	%	USD mln	%	USD mln	%	USD mln	%
	USD mln	%	USD mln	%	USD mln	%	USD mln	%
Profit before income tax	28	100	(41)	100	-	100	(70)	100
Income tax at applicable tax rate of 20% (2012: 20%)	6	20	(8)	(20)	-	20	(14)	(20)
Effect of income taxed at different rates	1	3	16	39	2	15	16	23
Income tax on dividends	1	4	1	3	1	17	-	-
Non-deductible expenses/non taxable income, net	4	14	11	25	2	23	10	14
Change in unrecognised deferred tax asset	2	5	-	-	2	25	-	-
	<u>14</u>	<u>46</u>	<u>20</u>	<u>47</u>	<u>7</u>	<u>100</u>	<u>12</u>	<u>17</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

	30 June 2013	31 December 2012
	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>

In December 2012 Maple Ridge Limited acquired control over FESCO. In 2012 to finance the acquisition, the Group entered into several bank loan facilities in the aggregate amount of USD 540 million, which were on-lent to the Group's new shareholders. Additionally, the Group subsidiaries issued guarantees for the bank facilities obtained by the new shareholders for the aggregate amount of USD 400 million.

In April – May 2013 the Group issued Eurobonds denominated in US Dollars for a total amount of USD 875 million (Note 16). The Group provided USD 824 million from Eurobonds proceeds to the Group's new shareholder in order to refinance bank facilities obtained by the Group's new shareholder in the course of acquisition.

The Group's management has considered the fact the timing and ultimate amount of settlement is controlled by the Group's new shareholder; therefore, the management treated the advanced amounts as distributions to the Group's new shareholder and in accordance with IFRS recorded those within statement of changes in equity for the six-months ended 30 June 2013.

19. Share – Based Payments

The Group has share option programme for management.

The Group's obligations may be settled in shares or in cash at the choice of the employee. Vesting of the options is subject to the individuals concerned remaining employees at the end of the specified

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period, although leavers may have a pro-rata entitlement. The employees are not required to achieve any other non-market or market based performance conditions.

The accumulated liability from recognised grants amounts to USD 0.08 million (31 December 2012 – USD 2.8 million).

The fair values of options granted under the Group's share option scheme were calculated at the period end using a Black-Scholes option pricing model with the following key assumptions:

	<u>30 June 2013</u>	<u>31 December 2012</u>
Stock price, USD	0.19	0.31
Exercise price, USD	0.32	0.32
Risk – free rate	0.10%-0.15%	0.16%-0.21%
Volatility	40.97%-44.16%	51.16%-67.52%
Time to expiration	0.5 -1 years	0.11-1.5 years

The stock price was obtained from Moscow Stock Exchange data on the balance sheet date. The risk – free rate is based on an estimate of returns on US two-four year Treasury bonds. Volatility is based upon historical record of share price with reference to the period of time from the reporting date to expected exercise date ranging from 0.5 to 1 year. The method corresponds to level 3 of the hierarchy of determination of the fair values.

20. Business Segmental Analysis

For management purposes, the Group is organised into four major operating divisions – shipping, liner and logistics, railway services and ports. 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.

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 six-month period ended 30 June 2013 is set out below.

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	Shipping	Liner and Logistics	Railway services	Ports	Corporate	Investment in TransContainer	Eliminations/ Adjustments	Total
	USD mln							
External sales	15	327	135	81	-	-	-	558
Inter-segment sales	14	-	6	30	-	-	(50)	-
Segment revenue	29	327	141	111	-	-	(50)	558
Segment expenses (*)	(37)	(312)	(88)	(66)	(16)	-	57	(462)
Segment result	(8)	15	53	45	(16)	-	7	96

Segment non-cash items:

Depreciation and amortization	(4)	(7)	(22)	(10)	(1)	-	-	(44)
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Other material items of income/expense:

Other income and expenses	3	3	-	(3)	4	-	(7)	-
Interest expense	(1)	(2)	(25)	(15)	(22)	-	10	(55)
Share of profit of equity accounted investees	-	1	3	-	-	19	-	23
Income tax expense	(1)	(3)	(1)	(7)	(2)	-	-	(14)

Segment information for the main reportable segments of the Group for the six-month period ended 30 June 2012 is set out below.

	Shipping	Liner and Logistics	Railway services	Ports	Corporate	Investment in TransContainer	Eliminations/ Adjustments	Total
	USD mln							
External sales	55	284	183	60	-	-	-	582
Inter-segment sales	20	1	2	24	-	-	(47)	-
Segment revenue	75	285	185	84	-	-	(47)	582
Segment expenses (*)	(82)	(273)	(92)	(47)	(18)	-	48	(464)
Segment result	(7)	12	93	37	(18)	-	1	118

Segment non-cash items:

Depreciation and amortization	(13)	(7)	(23)	(7)	(1)	-	-	(51)
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Other material items of income/expense:

Impairment/(loss) reversal on tangible fixed assets, net	(82)	-	-	-	-	-	-	(82)
Other income and expenses	(1)	4	6	-	(27)	-	-	(18)
Interest expense	(6)	(1)	(23)	(1)	(5)	-	7	(29)
Share of profit of equity accounted investees		2	3	4	-	14	-	22
Income tax (expense) / benefit	4	(5)	(17)	(8)	6	-	-	(20)

Segment information for the main reportable segments of the Group for the three-month period ended 30 June 2013 is set out below.

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	Shipping	Liner and Logistics	Railway services	Ports	Corporate	Investment in TransContainer	Eliminations/ Adjustments	Total
	USD mln							
External sales	4	169	63	47	-	-	-	283
Inter-segment sales	8	-	3	18	-	-	(29)	-
Segment revenue	12	169	66	65	-	-	(29)	283
Segment expenses (*)	(18)	(162)	(41)	(36)	(7)	-	31	(233)
Segment result	(6)	7	25	29	(7)	-	2	50
<i>Segment non-cash items:</i>								
Depreciation and amortization	(2)	(4)	(10)	(5)	(1)	-	-	(22)
<i>Other material items of income/expense:</i>								
Other income and expenses	2	1	(1)	(3)	2	-	(4)	(3)
Interest expense	(1)	(1)	(17)	(6)	(17)	-	7	(35)
Share of profit of equity accounted investees	-	-	3	-	-	11	-	14
Income tax expense	-	-	-	(5)	(2)	-	-	(7)

Segment information for the main reportable segments of the Group for the three-month period ended 30 June 2012 is set out below.

	Shipping	Liner and Logistics	Railway services	Ports	Corporate	Investment in TransContainer	Eliminations/ Adjustments	Total
	USD mln							
External sales	23	156	91	50	-	-	-	320
Inter-segment sales	9	1	1	15	-	-	(26)	-
Segment revenue	32	157	92	65	-	-	(26)	320
Segment expenses (*)	(43)	(143)	(43)	(37)	(9)	-	25	(250)
Segment result	(11)	14	49	28	(9)	-	(1)	70
<i>Segment non-cash items:</i>								
Depreciation and amortization	(7)	(3)	(12)	(6)	(1)	-	-	(29)
<i>Other material items of income/expense:</i>								
Impairment/(loss) reversal on tangible fixed assets, net	(82)	-	-	-	-	-	-	(82)
Other income and expenses	(3)	3	8	-	(29)	-	-	(21)
Interest expense	(3)	-	(12)	(1)	(3)	-	5	(14)
Share of profit of equity accounted investees	-	1	2	-	-	9	-	12
Income tax (expense) / benefit	3	(4)	(11)	(6)	6	-	-	(12)

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Segmental assets and liabilities breakdown for the six-month period ended 30 June 2013 is set out below.

Segmental assets and liabilities

	Assets		Liabilities	
	30 June 2013	31 December 2012	30 June 2013	31 December 2012
	USD mln			
Shipping (Global)	138	189	28	66
Liner and logistics (Global)	218	218	101	113
Railway services (Russia)	587	619	106	306
Stevedoring services (Russia)	394	818	98	517
Total of all segments	1,337	1,844	333	1,002
Goodwill	260	280	-	-
Other items not attributed to a specific segment	554	556	1,174	146
Consolidated	<u>2,151</u>	<u>2,680</u>	<u>1,507</u>	<u>1,148</u>

Other segmental information

	Acquisition of segment assets		Investments in equity accounted investees	
	30 June 2013	30 June 2012	30 June 2013	31 December 2012
	USD mln			
Shipping (Global)	12	16	-	1
Liner and logistics (Global)	9	7	9	8
Railway services (Russia)	9	29	21	23
Stevedoring services (Russia)	5	6	-	-
Investment in TransContainer	-	-	313	327
	<u>35</u>	<u>58</u>	<u>343</u>	<u>359</u>

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

21. Revenue

	Six-month period ended 30 June		Three-month period ended 30 June	
	2013	2012	2013	2012
	USD mln			
Transportation services (operators' business)	431	435	214	231
Port and stevedoring services	86	60	52	49
Revenue from rentals	24	29	12	15
Hire and freight	15	55	4	24
Agency fees	2	3	1	1
	<u>558</u>	<u>582</u>	<u>283</u>	<u>320</u>

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22. Operating Expenses

	Six-month period ended 30 June		Three-month period ended 30 June	
	2013	2012	2013	2012
	USD mln			
Railway infrastructure tariff and transportation services	289	248	144	127
Payroll expenses	48	43	23	26
Voyage and vessel running cost	17	59	9	30
Stevedoring services	23	10	16	7
Operating lease	13	29	7	20
Non-profit based taxes	4	2	2	2
	394	391	201	212

23. Administrative Expenses

	Six-month period ended 30 June		Three-month period ended 30 June	
	2013	2012	2013	2012
	USD mln			
Salary and other staff related costs	44	41	22	21
Professional fees	5	8	1	3
Office rent	4	6	2	4
Other administrative expenses	15	18	7	10
	68	73	32	38

Salary and other staff related costs include share based payment release in amount of USD 3 million (2012: USD 1.8 million expenses).

24. Other Finance Income

	Six-month period ended 30 June		Three-month period ended 30 June	
	2013	2012	2013	2012
	USD mln			
Interest income	21	5	8	3
Changes in fair value of financial instruments	-	(1)	-	(4)
	21	4	8	(1)

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25. Earnings/ (Loss) 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. These represent share options granted to management.

	Six-month period ended 30 June		Three-month period ended 30 June	
	2013	2012	2013	2012
	USD			
Profit / (loss) for the period	13,647,000	(63,590,000)	(7,634,000)	(81,970,000)
Weighted average number of shares in issue (note 18)	<u>2,951,250,000</u>	<u>2,647,112,795</u>	<u>2,951,250,000</u>	<u>2,647,112,795</u>
Basic profit/(loss) per share	<u>0.005</u>	<u>(0.024)</u>	<u>(0.003)</u>	<u>(0.031)</u>

	Six-month period ended 30 June		Three-month period ended 30 June	
	2013	2012	2013	2012
	USD			
Profit/(loss) for the period, adjusted for stock option expense	11,597,274	(61,809,925)	(6,111,274)	(79,919,849)
Weighted average number of shares in issue, adjusted for potentially dilutive shares (note 19)	<u>2,916,743,978</u>	<u>2,645,990,739</u>	<u>2,916,743,978</u>	<u>2,647,112,795</u>
Diluted profit/(loss) per share	<u>0.004</u>	<u>(0.023)</u>	<u>(0.002)</u>	<u>(0.030)</u>

26. Related Party Transactions

For the purposes of these 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 seven individuals were considered to be the Group's key management and directors (2012 – seven individuals). Their remuneration during the period was as follows:

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	Six-month period ended 30 June		Three-month period ended 30 June	
	2013	2012	2013	2012
	USD mln			
Salaries	2	1	1	1
Bonuses	2	1	-	-
	4	2	1	1
Share option expense	-	2	-	-
	4	4	1	1

During the period the share option liability decreased resulting in a gain of USD 3 million.

Statement of financial position	30 June 2013	31 December 2012	Nature of balances
	USD mln		
Associates	4	2	Trade receivables
Associates	7	-	Dividends
Joint Venture Company	2	1	Trade receivables
Joint Venture Company	1	1	Loan issued
Joint Venture Company	1	-	Interest receivable
Joint Venture Company	3	-	Dividends
Related through common shareholder	139	541	Loan issued
Related through common shareholder	-	2	Interest receivable
Related through common shareholder	-	4	Payables on behalf of related party
Related through common shareholder	3	-	Other receivables
Joint Venture Company	6	7	Finance lease receivable
Non-consolidated subsidiaries	(1)	(1)	Loan payable

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	For six-month period ended		For three-month period ended		Nature of transactions
	30 June 2013	30 June 2012	30 June 2013	30 June 2012	
	USD mln				
Income Statement					
Associates sales	2	-	1	-	Agency services, rent and other services
Associates purchases	(4)	(1)	(2)	(1)	Agency services, rent and other expenses
Joint Venture Company purchases	(2)	(4)	(1)	(1)	Agency, transportation and stevedoring services
Joint Venture Company sales	1	2	1	1	Transportation services
Joint Venture Company	1	-	1	-	Finance lease and interest income
Related through common shareholder	15	1	5	-	Interest income
Related through common shareholder	3	2	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.