FAR-EASTERN SHIPPING COMPANY PLC.
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

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Independent Auditors' Report

To the Board of Directors of FAR-EASTERN SHIPPING COMPANY PLC. (FESCO)

We have audited the accompanying consolidated financial statements of FAR-EASTERN SHIPPING COMPANY PLC. (FESCO) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
16 April 2012

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Financial Position
As at 31 December 2011

'000 USD	**Note**	**31 December 2011**	**31 December 2010**
ASSETS			
Non-Current Assets			
Fleet	6	381,591	411,605
Rolling stock	7	504,660	316,881
Other tangible fixed assets	8	161,019	152,916
Goodwill	4	213,873	200,252
Other intangible assets	5	1,606	5,731
Investments in associates and joint ventures	9	105,267	100,634
Other equity investments	10	199,079	165,042
Other non-current assets	11	313,293	30,721
Total non-current assets		1,880,388	1,383,782
Current Assets			
Inventories	12	25,142	21,341
Accounts receivable	13	178,189	147,288
Current tax assets		9,730	2,455
Other current assets	14	8,113	2,160
Cash and cash equivalents	15	231,576	556,288
Total current assets		452,750	729,532
Total Assets		2,333,138	2,113,314
EQUITY AND LIABILITIES			
Shareholders' Equity	20		
Share capital		57,230	57,230
Share premium		999,494	999,494
Treasury shares		(336,104)	(336,104)
Retained earnings		889,352	870,357
Reserves		(183,464)	(75,092)
Equity attributable to owners of the Company		1,426,508	1,515,885
Non-controlling interests		14,396	11,409
Total equity		1,440,904	1,527,294
Non-current liabilities			
Long term loans and finance lease obligations	17	498,511	302,746
Deferred tax liability	19	34,546	32,987
Other long term liabilities	18	27,136	27,285
Total non-current liabilities		560,193	363,018
Current Liabilities			
Accounts payable	16	128,561	98,497
Current tax liabilities		4,542	2,114
Short term loans and finance lease obligations	17	198,938	122,391
Total current liabilities		332,041	223,002
Total liabilities		892,234	586,020
Total equity and liabilities		2,333,138	2,113,314

S.V. Generalov, President

Date: 16 April 2012

Y.B. Gilts, Vice President and CFO

The accompanying notes on pages 11 to 57 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Income Statement
For the year ended 31 December 2011

'000 USD	**Note**	**2011**	**2010**
Revenue	23	1,028,755	800,591
Operating expenses	24	(679,825)	(544,224)
Gross profit before depreciation and amortization		348,930	256,367
Depreciation and amortisation	5,6,7,8	(81,733)	(72,817)
Administrative expenses	25	(133,191)	(98,737)
Impairment (loss)/reversal on tangible fixed assets, net	28	(46,615)	38,644
Loss on disposal of tangible fixed assets	27	(312)	(5,239)
Bad debt charge		(6,322)	(4,122)
Other income		818	7,186
Profit from operating activity		81,575	121,282
Interest expense		(45,121)	(53,973)
Foreign exchange gain/(loss)		14,522	(2,487)
Result on disposal of investments		-	419,918
Other financial income/(expenses), net	26	1,351	(13,895)
Share of profit of equity accounted investees	9	6,715	5,920
Profit before income tax		59,042	476,765
Income tax expense	19	(29,905)	(20,897)
Profit for the year		29,137	455,868
Attributable to:			
Owners of the Company		19,253	449,352
Non-controlling interest		9,884	6,516
Basic profit per share	29	USD 0.008	USD 0.176
Diluted profit per share		USD 0.008	USD 0.175

The accompanying notes on pages 11 to 57 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2011

'000 USD		**2011**		**2010**
Profit for the year		29,137		455,868
Other comprehensive income/(loss):				
Revaluation of fleet	3,515		416	
Deferred tax charge on revaluation of fleet	(878)		(1,123)	
Transfer of changes in fair value of cash flow hedge to income statement	-		5,334	
Effect of foreign currency translation	(37,867)		(8,787)	
Net change in fair value of available-for-sale financial assets	(72,708)		23,711	
Release from revaluation of available - for - sale investments on disposal	-		(220,849)	
Release from currency translation reserve on disposal of available- for -sale investments	-		(29,601)	
Correction of the cost of tangible fixed assets, net of deferred tax	2,211		5,568	
Other comprehensive (loss)/ income for the year		(105,727)		(225,331)
Total comprehensive (loss)/ income for the year		(76,590)		230,537
Total comprehensive (loss)/ income attributable to:				
Ordinary shareholders of the Company		(85,450)		224,052
Non-controlling interests		8,860		6,485

The accompanying notes on pages 11 to 57 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Changes in Equity
For the year ended 31 December 2011

	Attributable to equity holders of the Company										
'000 USD	**Share capital (Note 20)**	**Share premium (Note 20)**	**Treasury shares (Note 20)**	**Retained earnings**	**Revaluation reserve**	**Investment fair value reserve**	**Translation reserve**	**Cash flow hedge**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010	57,230	999,494	(336,104)	404,519	40,314	220,849	(92,050)	(2,419)	1,291,833	7,773	1,299,606
Profit for the year	-	-	-	449,352	-	-	-	-	449,352	6,516	455,868
Other comprehensive income/(loss)											
Effect of foreign currency translation	-	-	-	-	-	-	(8,756)	-	(8,756)	(31)	(8,787)
Revaluation of fleet, net of deferred tax	-	-	-	-	(707)	-	-	-	(707)	-	(707)
Release from revaluation reserve	-	-	-	10,918	(10,918)	-	-	-	-	-	-
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	23,711	-	-	23,711	-	23,711
Release from revaluation of available - for - sale investments on disposal	-	-	-	-	-	(220,849)	(29,601)	-	(250,450)	-	(250,450)
Transfer of changes in fair value of cash flow hedge to income statement	-	-	-	-	-	-	-	5,334	5,334	-	5,334
Correction of the cost of tangible fixed assets, net of deferred tax (Note 7)	-	-	-	5,568	-	-	-	-	5,568	-	5,568
Total other comprehensive income/(loss)	-	-	-	16,486	(11,625)	(197,138)	(38,357)	5,334	(225,300)	(31)	(225,331)
Total comprehensive income/(loss) for the year	-	-	-	465,838	(11,625)	(197,138)	(38,357)	5,334	224,052	6,485	230,537
Transactions with owners, recorded directly in equity											
Dividends declared	-	-	-	-	-	-	-	-	-	(2,849)	(2,849)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	-	-	(2,849)	(2,849)
Total transaction with owners	-	-	-	-	-	-	-	-	-	(2,849)	(2,849)
Balance at 31 December 2010	57,230	999,494	(336,104)	870,357	28,689	23,711	(130,407)	2,915	1,515,885	11,409	1,527,294

The accompanying notes on pages 11 to 57 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Statement of Changes in Equity
For the year ended 31 December 2011
(Continued)

	Attributable to equity holders of the Company										
'000 USD	**Share capital (Note 20)**	**Share premium (Note 20)**	**Treasury shares (Note 20)**	**Retained earnings**	**Revaluation reserve**	**Investment fair value reserve**	**Translation reserve**	**Cash flow hedge**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2011	57,230	999,494	(336,104)	870,357	28,689	23,711	(130,407)	2,915	1,515,885	11,409	1,527,294
Profit for the year	-	-	-	19,253	-	-	-	-	19,253	9,884	29,137
Other comprehensive income/(loss)											
Effect of foreign currency translation	-	-	-	-	-	-	(36,843)	-	(36,843)	(1,024)	(37,867)
Revaluation of fleet, net of deferred tax	-	-	-	-	2,637	-	-	-	2,637	-	2,637
Release from revaluation reserve	-	-	-	1,458	(1,458)	-	-	-	-	-	-
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	(72,708)	-	-	(72,708)	-	(72,708)
Correction of the cost of tangible fixed assets, net of deferred tax (Note 7)	-	-	-	2,211	-	-	-	-	2,211	-	2,211
Total other comprehensive income/(loss)	-	-	-	3,669	1,179	(72,708)	(36,843)	-	(104,703)	(1,024)	(105,727)
Total comprehensive income/(loss) for the year	-	-	-	22,922	1,179	(72,708)	(36,843)	-	(85,450)	8,860	(76,590)
Transactions with owners, recorded directly in equity											
Dividends declared	-	-	-	-	-	-	-	-	-	(4,576)	(4,576)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	-	-	(4,576)	(4,576)
Acquisition of non-controlling interests without a change in control	-	-	-	(3,927)	-	-	-	-	(3,927)	(1,297)	(5,224)
Total transaction with owners	-	-	-	(3,927)	-	-	-	-	(3,927)	(5,873)	(9,800)
Balance at 31 December 2011	57,230	999,494	(336,104)	889,352	29,868	(48,997)	(167,250)	2,915	1,426,508	14,396	1,440,904

The availability of the Company's retained earnings for distribution to shareholders is determined by the Company's Charter and by Russian law and does not correspond with the figures shown above. The Company's retained earnings available for distribution under Russian Accounting Standards as at 31 December 2011 were USD 240 million (as at 31 December 2010 USD 250 million).

The accompanying notes on pages 11 to 57 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Cash Flows
For the year ended 31 December 2011

'000 USD	**Note**	**2011**	**2010**
Cash flows from operating activities			
Profit for the year		**29,137**	**455,868**
Adjustments for:			
Depreciation and amortisation		81,733	72,817
Impairment losses/(reversal)		46,615	(37,950)
Loss on disposal of tangible fixed assets		312	5,239
Foreign exchange differences		(14,522)	2,487
Net finance costs/(income)		43,770	(352,050)
Share of profit of equity accounted investees		(6,715)	(5,920)
Income tax expense		29,905	20,897
Share options (release)/expense		(786)	3,093
Other income and expense		3,760	-
Cash from operating activities before changes in working capital and provisions		**213,209**	**164,481**
Change in inventories		(3,417)	(3,016)
Change in trade and other receivables		(21,752)	(22,555)
Change in trade and other payables		18,376	10,817
Cash flows from operations before income taxes paid		**206,416**	**149,727**
Income tax paid		(33,799)	(14,596)
Income tax received		-	5,640
Cash flows from operating activities		**172,617**	**140,771**

The accompanying notes on pages 11 to 57 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Cash Flows
For the year ended 31 December 2011
(Continued)

'000 USD	Note	2011	2010
Cash flows from investing activities			
Expenditure on vessels under construction	6	(24,552)	(36,859)
Refund from cancellation of construction contract		1,100	25,139
Expenditure on other fixed assets	8	(109,837)	(52,612)
Expenditure on drydocking	6	(7,863)	(8,609)
Proceeds on disposal of fleet		4,773	114,664
Proceeds on disposal of other fixed assets		3,645	2,422
Acquisition of equity-accounted investee	9	(4,765)	(1,644)
Other investments acquired	10	(105,902)	(139,268)
Acquisition of subsidiaries, net of cash acquired	30	(45,390)	-
Prepayments for investments	11	(292,935)	-
Proceeds on sale of investments		664	869,469
Dividends received		2,140	2,516
Short-term loans /investments (issued)/received		(6,301)	(2,784)
Finance lease received		588	780
Interest received		10,563	5,349
Net cash (used in)/ generated from investing activities		**(574,072)**	**778,563**
Cash flows from financing activities			
Proceeds from borrowings		501,275	280,472
Repayment of borrowings		(344,930)	(649,832)
Finance charges		(45,534)	(57,617)
Financial instruments liability paid		(10,518)	(9,811)
Decrease in overdraft		-	(1,530)
Dividends paid		(8,270)	(2,849)
Acquisition of non-controlling interests		(4,194)	-
Net cash generated from/(used in) financing activities		**87,829**	**(441,167)**
Effect of exchange rate fluctuations on cash and cash equivalents		(11,086)	(4,067)
Net (decrease)/increase in Cash and cash equivalents		(324,712)	474,100
Cash and cash equivalents at 1 January		556,288	82,188
Cash and cash equivalents at 31 December	15	231,576	556,288

The accompanying notes on pages 11 to 57 form an integral part of these consolidated financial statements.

1. Organisation and Trading Activities

Far-Eastern Shipping Company PLC. (FESCO) 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: 15 Aleutskaya Street, Vladivostok, Primorskiy Kray, Russian Federation 690091.

The Company's immediate parent entity is SVG Holdings S.A. Luxemburg and Mr Sergey Generalov 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. Basis of Accounts Preparation

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of selecting and applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where estimates are significant to the financial statements are disclosed in Note 2c.

The significant accounting policies adopted by the Group have been consistently applied with those of the prior period.

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit and loss and financial investments classified as available-for-sale are stated at fair value. Group's vessels are stated at fair value at each reporting date based on valuation performed by an independent professional appraiser as disclosed in Note 6. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

(b) Basis of consolidation

These financial statements include the accounts of FESCO and its subsidiaries. The principal subsidiaries of the Group are as follows:

Name	Country of Incorporation	Percentage Holding	Activity
Bodyguard Shipping Company Limited	Cyprus	100%	Ship owning
Diataxis Shipping Company Limited	Cyprus	100%	Ship owning
Yerakas Shipping Company Limited	Cyprus	100%	Ship owning
Antilalos Shipping Company Limited	Cyprus	100%	Ship owning
Carmina Maritime Ltd	Marshall Islands	100%	Ship owning
Kirdischev Maritime Ltd	Marshall Islands	100%	Ship owning
Angara Maritime Ltd	Marshall Islands	100%	Ship owning
Ob Maritime Ltd	Marshall Islands	100%	Ship owning

Name	Country of Incorporation	Percentage Holding	Activity
Kraynev Maritime Ltd.	Marshall Islands	100%	Ship owning
Udarnik Maritime Ltd.	Marshall Islands	100%	Ship owning
Yenisey Maritime Ltd	Marshall Islands	100%	Ship owning
Marline Shipping Company Limited	Cyprus	100%	Ship owning
Marview Shipping Company Limited	Cyprus	100%	Ship owning
FESCO Agencies N.A., Inc.	USA	100%	Shipping agency
Astro-Moon Shipping Company Limited	Cyprus	100%	Ship owning
Mar Space Shipping Company Limited	Cyprus	100%	Ship owning
Lightview Shipping Company Limited	Cyprus	100%	Ship owning
Star Warm Shipping Company Limited	Cyprus	100%	Ship owning
Anouko Shipping Company Limited	Cyprus	100%	Ship owning
FESCO Lines China, Co., Ltd.	China	100%	Shipping agency
Firm Transgarant LLC	Russia	100%	Holding company for transportation services group
FIT LLC	Russia	100%	Transport and forwarding services
VKT LLC	Russia	75%	Container terminal
TRANSFES Co., Ltd	Russia	100%	Shipping agency and operations
Dalreftrans Co, Ltd	Russia	100%	Transport and forwarding services
ESF	Russia	100%	Shipping agency and operations
FESCO Lines Hong Kong Limited	China	100%	Shipping agency
FESCO Agency Lines HK Limited	Hong Kong	100%	Shipping agency
FESCO Lines Management Limited	Hong Kong	100%	Financial management
FESCO Container Services Company Limited	Cyprus	100%	Line operator
FESCO Ocean Management Limited	Cyprus	100%	Shipping operations
Maritime and Intermodal Logistics Systems Inc.	USA	100%	Container freight services
Remono Shipping Company Limited	Cyprus	100%	Freight forwarder
Shonstar Limited	British Virgin Islands	100%	Share options for Group's management
FESCO Transportation Group Ltd	Russia	100%	Managing company

Subsidiaries.
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

Certain subsidiaries, associate companies and joint ventures that are neither individually nor in aggregate material to the results, cash flows or financial position of the Group are not consolidated. These investments are recorded as available-for-sale investments at fair value as estimated by management. Where it is not possible to estimate fair values reliably, they are recorded at historical cost less applicable impairment.

Joint ventures and associates (equity accounted investees).
Joint ventures are those companies and other entities in which the Group, directly or indirectly, undertake an economic activity that is subject to joint control. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies Joint ventures and associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that joint control/significant influence commences until the date that joint control/significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation.
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Acquisitions from entities under common control.
Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(c) Critical accounting estimates and judgements in applying accounting policies

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.
Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

1. Impairment of goodwill and tangible fixed assets, see Note 4 and Notes 7,8
2. Determination of the fair value of the Group's fleet, see Note 6
3. Russian taxation contingencies, see Note 32(d)

(d) Segmental Reporting

The Group has four operating segments: shipping, which operates on a global basis, intermodal services, railway transportation services which operate in Russia and other countries of the CIS and Russian-based port and sea terminal. A segmental analysis has been included in Note 22.

3. Accounting Policies

(a) Functional and Presentation Currency

The presentation currency used in the preparation of these financial statements is the U.S. Dollar ("USD").
The functional currency of each Group entity is the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are translated to USD as stated below.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are translated into functional currency at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Foreign currency differences arising in translation are recognised in the income statement, except for differences arising on the translation of available-for-sale equity instruments.

The results and financial position of each Group entity whose functional currency is different from USD, are translated into the presentation currency as follows:

(i) assets and liabilities at each reporting date are translated at the closing rate at this date;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
and
(iii) all resulting exchange differences are recognised as a separate component of equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to the income statement.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity.

None of the Group entities has a functional currency which is a currency of hyperinflational economy. All financial information presented in USD has been rounded to the nearest thousand.

The Russian rouble is not a fully convertible currency outside of the Russian Federation and, accordingly, any conversion of RUB amounts to USD should not be construed as a representation that RUB amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

At 31 December 2011, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RUB 32.196 (31 December 2010 USD 1 = RUB 30.48).

Fleet

The fleet is stated on an individual vessel basis at market value as assessed by independent professional valuers and supported by calculations of value in use.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Revaluations are performed annually.

A revaluation increase is recognised in revaluation reserve in equity except to the extent that it reverses a previous revaluation deficit on the same asset recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease is recognised in the income statement except to the extent that it reversed the previous revaluation surplus on the same asset recognised directly in equity, in which case it is recognised directly in equity.

At the year end a portion of the revaluation reserve, which is equal to the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s original cost is transferred from the revaluation reserve to retained earnings.

Other fixed assets are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Vessels in course of construction include advances to shipyards, supervision fees, professional fees, finance costs and interest capitalised.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. Dry-docking and special survey costs (“Dry-docking costs”) are recognised as a separate component of the vessel and are capitalised as incurred during the period of the dry-docking programme.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of that item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Fleet depreciation

Depreciation is charged on a straight-line basis in the income statement on net book value less an estimated scrap value, based on anticipated useful lives of 25 years from date of building of the vessel.

Other fixed assets depreciation

Other fixed assets are depreciated on a straight line basis to their residual values at the following annual rates:

Buildings	3 – 10%
Rolling stock	4 – 20%
Machinery, equipment and other fixed assets	5 – 33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. Land is not depreciated.

Residual values
The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

(b) Impairment of non-financial assets.

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of material impairment. If any such indication exists, recoverable amounts are estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment loss is recognised in the income statement unless it reverses a previous revaluation recognised in equity in which case it is recognised in equity.
Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(c) Dry-docking and special surveys

Dry-docking and special survey costs are capitalised and depreciated on a straight-line basis over a period of five years. Any unamortised amounts are derecognised when the next dry dock / special survey occurs or on disposal of the vessel to which the costs relate.

(d) Inventories

Inventories are stated at the lower of cost, calculated on a weighted average basis, and net realisable value. Inventories comprise bunkers, victualling stocks, stores, spares and materials for construction. Net realisable value is the estimated amount an item could be sold for less any selling expenses.

(e) Revenue recognition

The Group derives revenue from the following main sources:

- “freight and hire” revenue from sea transportation;
- agency fees for arranging transportation;
- provision of transportation services using own and leased wagons (operators’ business);
- revenue from stevedoring services;
- revenue from rentals.

The Group recognises revenue on an accruals basis at the fair value of the consideration received or receivable. Revenue is presented in the income statement net of VAT and discounts.

Freight and hire
Revenue from transportation services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the number of days completed out of the total estimated number of days in a particular transportation route/charter. Estimated losses on transportation in progress are recognised at the time such losses become evident.

Transportation agency fee
In certain cases Group’s subsidiaries act as a legal intermediary for transportation organizations and pay transport fees on behalf of its clients. These fees, which are reimbursed by the Group’s clients, are not included in sales or cost of sales. Consequently, only the Group’s fees for intermediary activities are recognised as sales. Debtors and liabilities that occur in accordance with these activities are recognized as accounts receivable and accounts payable respectively.

Transportation services (operator’s business)
The Group also organizes transportation for clients and provides similar services using its own or leased wagons. Normally, a transportation tariff charged by the Russian Railway is re-charged to the counterparty (the Company acts as an agent). For this type of activity, the Group’s revenue comprises operator’s fee.

The costs of sales for this type of activity generally includes transportation fees charged by transportation organizations for transportation of empty wagons (those are not re-charged to the counterparty), depreciation, repairs and maintenance costs for owned

Revenue from port and stevedoring services
Port and stevedoring services represent cargo handling and storage in port and terminal. The revenue is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the surveys of work performed.

Revenues from rentals
Revenue earned by the Group from rentals is recognised on a straight line basis over the term of the rent agreements.

(f) Classification of financial assets

Non-derivative financial instruments.
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Accounting for finance income and costs is discussed in note 3(v).

Held-to-maturity investments.
If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets.
The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Other.
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be estimated on a reasonable basis by other means, investments are stated at cost less impairment losses.

Derecognition of financial assets.
The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

(g) Derivative financial instruments

The Group's activities expose it to the financial risks arising from changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes. All derivative financial instruments are initially recognised at their fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion of designated cash flow hedge, changes in the fair value of designated fair value hedges and changes in the fair value of derivatives which do not meet the criteria for hedge accounting including, instances where sufficient hedge documentation is not available, is recognised in the income statement. Amounts recognised in equity are recycled in the income statement in the period in which the hedged item is recognised in the income statement, in the same line of the income statement as the recognised hedged item.

(h) Financial liabilities and equity instruments issued by the Company.

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Financial liabilities are classified as either financial liabilities at Fair Value Through Profit or Loss or "other financial liabilities".

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Fair value is obtained through discounting future cash flows at the current market interest rate applied to financial instruments with similar terms. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

(i) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.
An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.
Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.
An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(j) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(k) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(l) Operating leases

Where the Group is a lessee
Where a Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Where the Group company is a lessor
Assets leased to third parties under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

(m) Finance leases

Where the Group is a lessee
Where a Group company is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method.

Assets acquired under finance leases are depreciated over the shorter of useful life and the lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Where the Group is a lessor
Assets leased out under finance lease agreements are recognized in the statement of financial position and presented as receivable at an amount equal to the net investment in the lease. The income on the finance lease is recognized as interest income and is based on the pattern reflecting a constant periodic rate of return on the Company’s net investment in the finance lease.

(n) Defined contribution plans.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia’s State pension fund, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(o) Current and deferred tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.
Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(p) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(q) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(r) Goodwill arising on acquisition

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is tested annually for impairment and carried at cost less accumulated impairment losses.

Negative goodwill (excess of the fair value of the share in net assets acquired over consideration paid) is recognised in the income statement.

Any excess of the consideration paid to acquire a non-controlling interest over the book value of the non-controlling interest is recognised in equity.

(s) Other intangible assets

Other intangible assets are recognised at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight line basis over the useful life (generally five years), representing management's estimate of the period during which the Group is expected to benefit from these assets.

(t) Dividends

Dividends are recognised as a deduction from equity in the period in which they are approved by the shareholders.

(u) Share –based payments

The Group has a share option scheme to incentivise certain key members of management (see Note 21 for a fuller description of the scheme).
Due to the cash settlement option held by employees, the scheme is treated as creating a liability rather than an equity obligation. The fair value of the options outstanding is estimated by the Group at each balance sheet date using the Black-Scholes option pricing model.
For each option granted a liability based over the vesting period is recognised with a corresponding charge to the income statement (employee expenses).

(v) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss.

Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method, except to the extent that they relate to acquisition of qualifying assets, in which case they are capitalized in the cost of such assets.

Adoption of new and revised standards and interpretations.

A number of new standards and interpretations are not yet effective as of the reporting date, and have not been applied in preparing these consolidated interim financial statements.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

The impact of these new standards has not been determined by the Group yet.

4. Goodwill

	Gross amount	Accumulated impairment loss	Carrying amount
		'000 USD	
At 1 January 2010	243,936	(40,298)	203,638
Translation difference	(3,386)	-	(3,386)
At 31 December 2010	240,550	(40,298)	200,252
Additions (Note 30)	26,425	-	26,425
Translation difference	(12,804)	-	(12,804)
At 31 December 2011	254,171	(40,298)	213,873

Goodwill has been allocated to groups of cash generating units (CGU's) which represent the lowest level within the Group at which goodwill is monitored by management for internal reporting purposes.

The carrying amount of goodwill, net of impairment, allocated to each CGU is as follows:

	31 December 2011	31 December 2010
	'000 USD	
FIT LLC and its subsidiaries	3,572	3,773
FESCO ESF Limited and its subsidiaries	6,035	6,171
Firm Transgarant LLC and its subsidiaries	68,877	47,282
VKT LLC	135,389	143,026
	213,873	200,252

The Group uses discounted cash flow techniques and fair value less costs to sell determined by independent appraisal company to arrive at the recoverable amounts of the cash generating units for the purposes of an impairment testing.

The particular key assumptions used in the impairment testing, discount and growth rates for each CGU for the years 2011 and 2010 and were as follows:

2011	Discount rate	Terminal growth rate	Key assumptions
FIT LLC and its subsidiaries	15.90%	3%	Container volume (intermodal transportation and container forwarding services): increase from 127,617 TEU in 2012 to 138,439 TEU in 2016
FESCO ESF Limited and its subsidiaries	11.25%	3%	Container volume: increase from 102,216 TEU in 2012 to 125,503 TEU in 2016
VKT LLC	14.92%	3%	Throughput of containers: increase from 379,408 TEU in 2012 to 457,837 TEU in 2016

The recoverable amount of Firm Transgarant LLC and its subsidiaries as at 31 December 2011 was determined by reference to its fair value less costs to sell determined by independent appraisal company. Such approach was used due to announced plans to sell non-container railroad business of Firm Transgarant LLC and its subsidiaries (note 35).

2010	**Discount rate**	**Terminal growth rate**	**Key assumptions**
FIT LLC and its subsidiaries	15.50%	3%	Container volume (intermodal transportation and container forwarding services): increase from 67,345 TEU in 2011 to 79,488 TEU in 2016
FESCO ESF Limited and its subsidiaries	11.41%	3%	Container volume: increase from 94,644 TEU in 2011 to 125,503 TEU in 2016
Firm Transgarant LLC and its subsidiaries	14.84%	3%	Revenue growth: increase from USD 269 million in 2011 to USD 790 million in 2016
VKT LLC	13.61%	3%	Throughput of containers: increase from 287,738 TEU in 2011 to 379,683 TEU in 2016

Recoverable amount for CGU's exceed carrying values and therefore no impairment was recognised.

The table below details sensitivity analysis for each CGU :

	Discount rate	**Impairment loss ‘000 USD**	**Revenue**	**Impairment loss ‘000 USD**
FIT LLC and its subsidiaries	+1%	-	-2%	-
FESCO ESF Limited and its subsidiaries	+1%	-	-2%	-
VKT LLC	+1%	-	-2%	-

The reduction of estimated selling price less costs to sell by 5% would not result in an impairment of Firm Transgarant LLC and its subsidiaries.

5. Other Intangible Assets

	Cost	**Amortisation**	**Net Book Value**
		‘000 USD	
At 1 January 2010	12,974	(5,054)	7,920
Written off	(621)	-	(621)
Additions	115	-	115
Charge for the year	-	(1,683)	(1,683)
At 31 December 2010	12,468	(6,737)	5,731
Written off	(2,612)	-	(2,612)
Additions	169	-	169
Charge for the year	-	(1,682)	(1,682)
At 31 December 2011	10,025	(8,419)	1,606

Other intangible assets comprise mainly computer software and contract rights acquired from third parties.

6. Fleet

	Carrying value		
	31 December 2011	**31 December 2010**	**31 December 2009**
		'000 USD	
(a) Fleet	313,783	307,256	339,716
(b) Deferred dry docking expenses	19,552	20,090	18,671
(c) Vessels under construction	48,256	84,259	66,202
	381,591	411,605	424,589
Total deadweight tonnage	699,653	704,349	812,359

	Valuation	**Depreciation**	**Net Book Value**
		'000 USD	
At 1 January 2010	339,716	-	339,716
Depreciation charge for the year	-	(15,477)	(15,477)
Disposals	(92,693)	2,188	(90,505)
Revaluation	60,233	13,289	73,522
At 31 December 2010	307,256	-	307,256
Depreciation charge for the year	-	(12,024)	(12,024)
Disposals	(4,543)	-	(4,543)
Revaluation	(49,933)	12,024	(37,909)
Transfer from Vessels under construction	61,003	-	61,003
At 31 December 2011	313,783	-	313,783

The Group reviews the carrying value of the fleet on an annual basis. In determining an appropriate carrying value the Company relies on the opinion of expert third party valuers. The valuers determine by reference to recent sales transactions of similar vessels the amount a vessel could be sold for, assuming that the vessel is in a reasonable condition. Management critically reviews the valuation arrived at by the valuers and also produces calculations of value in use based on discounted anticipated future cash flows.

The valuation basis utilised implicitly includes the value of dry docking in the overall valuation. Management therefore deduct the net book value of capitalised dry dock from the valuation and account for such dry dock at historical cost less accumulated depreciation.

During the year the following vessels were transferred from the shipyard (see Note 6(c)):

mv "FESCO Saratov"	57,000 DWT Dry cargo bulk vessel	August 2011
mv "FESCO Simferopol"	57,000 DWT Dry cargo bulk vessel	November 2011

At 31 December 2011, the estimated scrap value of the Group's fleet was calculated based on an estimate of USD 455 per LWT (31 December 2010: USD 420). This change in accounting estimate was made in reaction to the increase in international steel prices. This change in accounting estimate resulted in a decrease of depreciation charge for the year ended 31 December 2011 by USD 0.6 million.

The fleet includes 21 vessels fully depreciated with an aggregate scrap value of USD 69 million at 31 December 2011 (16 vessels with scrap value of USD 51 million at 31 December 2010).

Had the vessels been carried at the historical cost, the carrying amount would have been USD 257 million at 31 December 2011 (31 December 2010 – USD 210 million).

The fleet was revalued as at 31 December 2011 by independent professional brokers with reference to the observable market transactions with the comparable vessels. The resulting revaluation decrease of USD 37.9 million has been recognised in the revaluation reserve (USD 3.5 million increase) and the income statement (USD 41.4 million decrease).

At 31 December 2011, 20 vessels in the Group's fleet with a net book value of USD 228 million were insured for hull and machinery risks with western underwriters. Further 25 vessels with a net book value of USD 86 million were insured with Russian underwriters. The total insured value amounted to USD 389 million.

24 vessels with a net book value of USD 253 million are pledged as a security to guarantee the Group's obligations under ING Bank N.V, Raffaisenbank and Citibank International plc loans (Note 17).

Movements during the period on deferred dry docking expenses were:

	Cost	**Depreciation**	**Net Book Value**
		'000 USD	
At 1 January 2010	36,651	(17,980)	18,671
Additions	9,249	-	9,249
Charge	-	(7,471)	(7,471)
Amortised dry dock write off	(5,397)	5,397	-
Release on disposal of fleet	(1,368)	1,009	(359)
At 31 December 2010	39,135	(19,045)	20,090
Additions	6,930	-	6,930
Charge for the year	-	(8,129)	(8,129)
Amortised dry dock write off	(3,409)	3,409	-
Release on disposal of fleet	(1,205)	766	(439)
Transfer from Vessels under construction	1,100	-	1,100
At 31 December 2011	42,551	(22,999)	19,552

Movements during the period on vessels under construction were:

	31 December 2011	**31 December 2010**
	'000 USD	
At 1 January 2010	84,259	66,202
Expenditure incurred during the year	24,552	51,067
Capitalised borrowing costs	1,697	1,453
Transferred to fleet during the year	(62,103)	-
Impairment	(149)	(34,463)
At 31 December 2011	48,256	84,259

Details of the Group's commitments in respect of vessels under construction are given in Note 32(a).

7. Rolling Stock

	Cost	**Depreciation**	**Net Book Value**
		'000 USD	
At 1 January 2010	409,133	(75,940)	333,193
Correction of the cost of tangible fixed assets	6,986	-	6,986
Additions in the year	14,061	-	14,061
Depreciation charge for the year	-	(31,594)	(31,594)
Disposals	(3,568)	1,325	(2,243)
Translation difference	(5,715)	2,193	(3,522)

	Cost	Depreciation	Net Book Value
		'000 USD	
At 31 December 2010	420,897	(104,016)	316,881
Correction of the cost of tangible fixed assets	2,211	-	2,211
Additions	200,898	-	200,898
Addition on acquisition	55,353	-	55,353
Depreciation charge	-	(40,083)	(40,083)
Disposals	(3,156)	1,861	(1,295)
Translation difference	(37,175)	7,870	(29,305)
At 31 December 2011	639,028	(134,368)	504,660

Rolling stock includes assets held under finance leases with a net book value of USD 153 million (at 31 December 2010 – USD 48 million).

At 31 December 2011 rolling stock with a carrying amount of USD 219 million (31 December 2010 - USD 133 million) are subject to registered debenture to secure bank loans (Note 17).

As at 31 December 2011 rolling stock with a net book value of USD 351 million was insured with Russian insurance companies. The total insured value is USD 539 million (at 31 December 2010 – USD 265 million with a net book value of USD 176 million).

8. Other Tangible Fixed Assets

	Buildings and Infrastructure	Plant, Machinery and Other	Assets under construction	Total
		'000 USD		
Cost				
At 1 January 2010	70,970	145,613	2,237	218,820
Additions	14,487	11,748	7,749	33,984
Transfer	1	102	(103)	-
Disposals	(3)	(5,468)	-	(5,471)
Translation difference	(3,141)	(1,016)	(87)	(4,244)
At 31 December 2010	82,314	150,979	9,796	243,089
Additions	865	18,113	23,632	42,610
Addition on acquisition	209	131	-	340
Reclass	329	(1,084)	16	(739)
Transfer	2,420	1,796	(4,216)	-
Disposals	(447)	(4,611)	(707)	(5,765)
Impairment	(3,545)	-	(1,497)	(5,042)
Translation difference	(3,409)	(4,489)	(1,983)	(9,881)
At 31 December 2011	78,736	160,835	25,041	264,612
Depreciation				
At 1 January 2010	18,251	60,425	-	78,676
Depreciation charge for the year	2,538	14,054	-	16,592
Eliminated on disposal	-	(4,542)	-	(4,542)
Translation difference	(24)	(529)	-	(553)
At 31 December 2010	20,765	69,408	-	90,173

	Buildings and Infrastructure	Plant, Machinery and Other	Assets under construction	Total
	'000 USD			
Addition on acquisition	29	45	-	74
Depreciation charge for the year	3,537	16,278	-	19,815
Eliminated on disposal	(341)	(3,692)	-	(4,033)
Translation difference	(462)	(1,974)	-	(2,436)
At 31 December 2011	23,528	80,065	-	103,593
Net Book Value				
At 1 January 2010	52,719	85,188	2,237	140,144
At 31 December 2010	61,549	81,571	9,796	152,916
At 31 December 2011	55,208	80,770	25,041	161,019

Plant, machinery and other fixed assets include containers held under finance lease with a net book value of USD 18 million (at 31 December 2010– USD 23 million) and plant and mashinery with a net book value of USD 3.5 million (at 31 December 2010 – nil).

At 31 December 2011 fixed assets with a carrying amount of USD 22 million (31 December 2010 - USD 11 million) are pledged as a security to guarantee the Group's loan obligations (Note 17).

9. Investments in Associates and Joint Ventures

Equity accounted investments represent investments in joint ventures and associates.

Name	Country of incorporation	Percentage Holding	Activity
"M-Port" (Commercial Port of Vladivostok)	Russia	50%	Commercial Port
"Russkaya Troyka"	Russia	50%	Intermodal Container Operations
FESCO Wallem Shipmanagement Limited	Hong Kong	50%	Technical, crewing and safety management services provider
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
Transorient Shipping Co., Ltd	South Korea	49%	Maritime general agency
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:

	31 December 2011	31 December 2010
	'000 USD	
Balance as at 1 January	100,634	100,883
Share of results of equity accounted investees	6,715	5,920
Additions	4,765	1,644
Dividends paid	4,254	2,875
Dividends received	(1,357)	(9,921)
Translation differences	(9,744)	(767)
Balance as at 31 December	105,267	100,634

50% shareholding of FESCO BLG Automobile Logistics Russia Limited, agency stevedoring company, was acquired by the Group in December 2011 for total cash consideration of USD 4.8 million.

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/ (loss)
		'000 USD								
2011										
M-Port (joint venture)	31 December	42,659	143,428	186,087	17,722	40,257	57,979	148,209	(142,568)	5,641
Russkaya Troyka (joint venture)	31 December	12,408	48,978	61,386	6,544	24,253	30,797	22,640	(18,195)	4,445
Fesco Wallem (joint venture)	31 December	2,261	69	2,330	1,860	-	1,860	2,664	(2,622)	42
Trunsrussia agency (joint venture)	31 December	5,145	43	5,188	4,993	157	5,150	2,484	(2,480)	4
International Paint (associate)	31 December	3,547	32	3,579	2,437	-	2,437	15,207	(12,224)	2,983
Shoshtrans (associate)	31 December	4,596	399	4,995	2,697	-	2,697	352	(161)	191
Transorient (associate)	31 December	5,129	517	5,646	4,091	74	4,165	2,369	(2,612)	(243)
MB – Fesco Trans (associate)	31 December	4,439	128	4,567	1,099	-	1,099	8,261	(7,759)	502
FESCO BLG (joint venture)	31 December	1,723	-	1,723	474	-	474	-	-	-
		81,907	193,594	275,501	41,917	64,741	106,658	202,186	(188,621)	13,565
2010										
M-Port (joint venture)	31 December	5,060	164,837	169,897	1,789	32,963	34,752	109,040	(93,660)	15,380
Russkaya Troyka (joint venture)	31 December	6,798	55,478	62,276	6,427	27,821	34,248	12,090	(16,075)	(3,985)
Fesco Wallem (joint venture)	31 December	1,167	100	1,267	838	-	838	2,575	(2,422)	153
Trunsrussia agency (joint venture)	31 December	3,592	43	3,635	3,331	134	3,465	2,188	(2,393)	(205)
International Paint (associate)	31 December	2,979	45	3,024	2,094	-	2,094	10,453	(8,099)	2,354
Shoshtrans (associate)	31 December	3,331	520	3,851	2,217	-	2,217	1,044	(1,144)	(100)
Transorient (associate)	31 December	5,347	512	5,859	4,191	-	4,191	2,097	(2,572)	(475)
MB – Fesco Trans (associate)	31 December	4,295	155	4,450	1,239	-	1,239	4,774	(4,635)	139
		32,569	221,690	254,259	22,126	60,918	83,044	144,261	(131,000)	13,261

Goodwill in amount of USD 22 million related to VMTP and FESCO BLG is included into the investments in associates and joint ventures.

10. Other equity investments

	31 December 2011	31 December 2010
	'000 USD	
(a) Investments available-for-sale	196,854	162,979
(b) Other investments	2,225	2,063
	199,079	165,042

Investments available for sale are comprised of 18.5% shares and Global Depository Receipts (GDR) of TransContainer OJSC.

As at the year end the fair value of investments in OJSC TransContainer was determined by reference to the quotations of shares and GDRs on the relevant stock exchange of USD 75/share and USD 7.8/GDR respectively. The resulting fair value of the shares was 19.9% lower than the cost of acquisition of such shares. Given the historically significant volatility of these shares and the increase in the fair value subsequent to the balance sheet date by more than 30%, management believes that the investments are not impaired at the balance sheet date.

In July 2011 the Group entered into Repurchase Agreement (REPO) with ING Bank N.V. The Group has pledged 5,210,540 Global Depositary Receipts and 1,166,690 ordinary shares of TransContainer OJSK as a security for a short term loan to the total amount of USD 84 million.

11. Other Non-Current Assets

	31 December 2011	31 December 2010
	'000 USD	
Prepayment for investment, at cost	292,935	-
Non-current portion of finance lease receivable, at amortized cost	6,787	8,636
Long term bank deposit, at cost	1,944	3,361
Prepayments for fixed assets, at cost	3,865	12,879
Other long term prepayments, at cost	2,577	2,291
Long term loan to related party, at cost	1,575	2,660
Other non-current assets	3,610	894
	313,293	30,721

Prepayments for investments represent prepayment for 2.6% of share capital of TransContainer OJSC in a form of Global Depository Receipts (GDR) to the total amount of USD 46.4 million and 100% of shares of Transportnaya Companiya CJSK, which main asset is 47.78% shares in Commercial Port of Vladivostok, to the total amount of USD 246.5 million.

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 %.

Lease receivables as at 31 December are scheduled as follows:

	31 December 2011		31 December 2010	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	'000 USD		'000 USD	
Within one year	2,895	1,851	2,231	740
Two to five years	8,187	6,787	11,082	8,636
	11,082	8,638	13,313	9,376
Less: future finance charges	(2,444)		(3,937)	
Present value of lease obligations	8,638		9,376	
Less current portion		(1,851)		(740)
Non-current portion		6,787		8,636

12. Inventories

	31 December 2011	31 December 2010
	'000 USD	
Bunkers	16,661	13,975
Stores and spares	4,047	3,851
Victualing	371	426
Other stocks and raw materials	4,063	3,089
	25,142	21,341

13. Accounts Receivable

	31 December 2011	31 December 2010
	'000 USD	
Trade debtors	66,277	66,298
VAT receivable	48,289	45,258
Receivable from KUKE	-	1,100
Prepayments to OJSC "Russian Railways"	18,683	18,944
Amounts due from associates and joint ventures	4,393	5,213
Amounts due from non-consolidated subsidiaries	23	782
Other debtors and prepayments	71,949	41,544
Allowance for impairment	(31,425)	(31,851)
	178,189	147,288

14. Other Current Assets

	31 December 2011	31 December 2010
	'000 USD	
Loans and promissory notes issued to related parties, at cost	-	1,354
Short term finance lease receivable, at amortized cost	1,851	740
Short term portion of interest rate swap, at fair value	20	66
Short term bank deposit, at cost	6,242	-
	8,113	2,160

15. Cash and Cash Equivalents

	31 December 2011	31 December 2010
	'000 USD	
Bank accounts and cash in hand	227,235	554,305
Restricted deposits	4,341	1,983
	231,576	556,288

16. Accounts Payable

	31 December 2011	31 December 2010
	'000 USD	
Trade creditors	36,542	36,535
Fair value of interest swap contracts (Note 31)	10,585	11,625
Taxes payable, other than income tax	7,290	4,805
Interest payable	3,119	1,539
Amounts due to associates and joint ventures	2,447	2,587
Amounts due to non-consolidated subsidiaries	141	-
Other creditors and accruals	68,437	41,406
	128,561	98,497

17. Loans Payable and Finance Leases Obligations

(a) Loans payable

	31 December 2011	31 December 2010
	'000 USD	
Loans and other obligations comprise:		
Secured loans		
At fixed rate 0.3%-5%	43,419	52,993
At fixed rate 5% - 10%	253,903	43,892
At fixed rate 10% -15%	-	248
At variable rates 0.25%-5% above Libor/Euribor /Mosprime	257,259	202,868
At variable rates 5%-9.5% above Libor/Euribor /Mosprime	-	52,611
	554,581	352,612

	31 December 2011	**31 December 2010**
	'000 USD	
Unsecured loans		
At fixed rate 9.5% -11%	-	26,249
	-	26,249
Obligations under finance leases at fixed rate 6%	20,826	25,001
Obligations under finance leases at fixed rate 7.7% - 18.3%	122,042	21,275
	142,868	46,276
	697,449	425,137
Repayable within the next twelve months	198,938	122,391
Long term balance	498,511	302,746
	697,449	425,137

For currency and maturity analysis of loans and other obligations see Note 33.

Fixed assets pledged as a security for loans are disclosed in Notes 6, 7, 8.

The Group was in compliance with covenants as at 31 December 2011.

(b) Finance Leases obligations

The Group partially finances the purchase of wagons and containers through leasing and sale-leaseback transactions with leasing companies.

All the lease agreements provide for ownership transfer of assets to the Group at the end of the lease terms for a nominal consideration.

The Group's finance leases mainly relate to acquisition of containers and railroad platforms.
The average effective interest rate on the wagon lease liability is 13% (2010: 14.35%) and on the container lease liability it is 6%. Minimum lease payments and future interest element are estimated based on the rates applicable to each individual lease contract.

Lease payments as at reporting date are scheduled as follows:

	31 December 2011		**31 December 2010**	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
	'000 USD		**'000 USD**	
Within one year	37,919	20,666	13,806	9,984
Two to five years	145,867	109,622	39,508	30,212
Over five years	14,029	12,580	6,962	6,080
	197,815	142,868	60,276	46,276
Less: future finance charges	(54,947)		(14,000)	
Present value of lease obligations	142,868		46,276	
Less current portion		(20,666)		(9,984)
Non-current portion		122,203		36,292

18. Other Non-Current Liabilities

	31 December 2011	31 December 2010
	'000 USD	
Fair value of interest rate swap (Note 31)	21,411	21,072
Defined benefit obligations	1,642	832
Share based payments (Note 21)	3,903	4,690
Other non-current payables	180	691
	27,136	27,285

19. 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.

	31 December 2011	31 December 2010
	'000 USD	
Current tax expense		
Current period	28,952	20,592
Adjustment for prior periods	-	(1,129)
	28,952	19,463
Deferred tax expense		
Origination and reversal of temporary differences	953	1,434
	953	1,434
Total income tax expense	29,905	20,897

Reconciliation of effective tax rate:

	31 December 2011		31 December 2010	
	'000 USD	%	'000 USD	%
Profit before income tax	59,042	100	476,765	100
Income tax at applicable tax rate of 20% (2010: 20%)	11,808	20	95,353	20
Effect of income taxed at (lower)/higher rates	9,177	16	(78,539)	(16)
Income tax on intra group dividends	-	-	525	0
Non-deductible temporary differences, net	6,824	11	6,625	0
Under/(over) provided in prior periods	-	-	(1,129)	0
Change in unrecognised deferred tax asset	2,096	4	(1,938)	0
	29,905	51	20,897	4

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.

Movements in temporary differences were the following:

	Balance 1 January 2011	(Charge) / release to income for the year	Addition on acquisition	Translation differences	Charge to equity for the year	Balance 31 December 2011
	'000 USD					
Vessels	(17,086)	4,186	-	-	(878)	(13,778)
Deferred dry docking	(2,460)	798	-	-	-	(1,662)
Other fixed assets	(26,925)	(20,781)	(7,903)	4,019	-	(51,590)
Assets under construction	78	594	-	(43)	-	629
Inventories	50	(175)	-	-	-	(125)
Accounts receivable	2,387	1,262	240	(259)		3,630
Accounts payable	4,336	16,302	4,692	(2,099)	-	23,231
Provisions, accruals and deferred income	1,064	352	-	(56)	-	1,360
Other	(49)	(64)	-	2	-	(111)
Tax loss carry-forwards	5,618	(3,427)	1,841	(162)	-	3,870
	(32,987)	(953)	(1,130)	1,402	(878)	(34,546)

	Balance 1 January 2010 (Restated)	(Charge) / release to income for the year	Translation differences	Charge to equity for the year	Balance 31 December 2010
	'000 USD				
Vessels	(14,913)	(1,049)	-	(1,124)	(17,086)
Deferred dry docking	(2,314)	(146)	-	-	(2,460)
Other fixed assets	(31,974)	6,378	68	(1,397)	(26,925)
Assets under construction	321	(243)	-	-	78
Inventories	26	29	(5)	-	50
Accounts receivable	6,520	(4,097)	(36)	-	2,387
Accounts payable	6,415	(2,049)	(30)	-	4,336
Provisions, accruals and deferred income	734	519	(189)	-	1,064
Other	(93)	(27)	71	-	(49)
Tax loss carry-forwards	6,415	(749)	(48)	-	5,618
	(28,863)	(1,434)	(169)	(2,521)	(32,987)

Unrecognized deferred tax asset

The Group has unrecognized DTA at the amount of USD 4.1 million as of 31 December 2011 (31 December 2010: USD 2.3 million)

Unrecognised deferred tax liability

A temporary difference of USD 152 million relating to investments in subsidiaries and joint ventures has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

20. Shareholders' Equity

	31 December 2011	31 December 2010
	'000 USD	
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 ('000 USD)	57,230	57,230

As at 30 December 2011 and 31 December 2010 the Group held 393,705,807 of its own shares which were purchased for USD 336 million, being approximately 13% of the shares in issue.

	31 December 2011	31 December 2010
	Number of shares	
Treasury shares held by:		
Far Eastern Shipping Company PLC	55,783	55,783
Neteller Holdings Limited	393,650,024	393,650,024
	393,705,807	393,705,807

157 million of treasure shares are loaned to related party for a fee in the amount of 0.3% per annum of the market value of the shares. The shares were returned to the Group subsequent to the balance sheet date.

21. Share – Based Payments

In January 2011, the Board of Directors of the Company took a decision to grant additional share options within share option program of the Group, resulting an increase in a number of share options to 71,643,593 shares. Exercise price is established at USD 0.32 - 0.456 at the expiry period of 3.5 years.

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 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 3.9 million (31 December 2010 – USD 4.7 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:

	2011	2010
Stock price, USD	0.27	0.54
Exercise price, USD	0.32-0.456	0.32
Risk – free rate	0.25%-0.31%	1.02%

Volatility	87.30%-91.56%	137.50%
Time to expiration	1.9-2.5 years	3 years

Fair value of share based payments at grant date was USD 5 million.

The stock price was obtained from Russian Trading System (RTS) 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 1.9 to 2.5 years. The method corresponds to level 3 of the hierarchy of determination of the fair values.

The variables set out above resulted in a value per option of 11.28 cents. This value is sensitive to changes in volatility. An increase in the assumed volatility to 200% will result in an increase in price to 22.05 cents. A decrease to 50% volatility will result in a decrease of price by 5.43 cents.

The movement in options to subscribe for shares under the Group's share option scheme is shown in the table below.

	2011		**2010**	
	Number of share option	**Weighted average exercise price, USD**	**Number of share option**	**Weighted average exercise price, USD**
Outstanding at 1 January	54,643,593	0.32	27,941,076	0.5385
Granted during the year	17,000,000	0.40	54,643,593	0.32
Forfeited during the year	-	-	27,941,076	0.5385
Outstanding at 31 December	71,643,593	0,339	54,643,593	0.32

Options granted to 17 directors and senior executives were outstanding at 31 December 2011. The scheme is funded by shares held by a Group company (Note 20).

22. 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 period ended 31 December 2011 is set out below.

	Shipping	Liner and Logistics	Railway services	Ports	Corporate	Eliminations/ Adjustments	Total
				'000 USD			
External sales	114,726	564,030	301,106	48,893	-	-	1,028,755
Inter-segment sales	44,818	2,513	6,847	28,134	-	(82,312)	-
Segment revenue	159,544	566,543	307,953	77,027		(82,312)	1,028,755
Total segment operating expenses	(154,299)	(518,364)	(173,688)	(28,697)	(30,860)	92,892	(813,016)
Segment result	5,245	48,179	134,265	48,330	(30,860)	10,580	215,739
Segment non-cash items:							
Depreciation and amortization	(23,097)	(11,997)	(41,121)	(4,228)	(1,290)	-	(81,733)
Impairment reversal on tangible fixed assets	(41,573)	-	-	(5,042)	-	-	(46,615)
Bad debt (charge) / release	(2,257)	553	(1,498)	(222)	(2,898)	-	(6,322)
Other material items of income/expense:							
(Loss)/profit on disposal of tangible fixed assets	-	1,034	(1,022)	(324)	-		(312)
Interest expense, share of profit/(loss) of associates and income tax expense:							
Interest expense	(8,309)	(2,703)	(35,117)	(751)	(5,537)	7,296	(45,121)
Share of profit/(loss) of equity accounted investees	1,483	190	2,222	2,820	-	-	6,715
Income tax expense	761	(9,343)	(13,237)	(8,312)	226	-	(29,905)

Segment information for the main reportable segments of the Group for the year ended 31 December 2010 is set out below.

	Shipping	Liner and Logistics	Railway services	Ports	Corporate	Eliminations/ Adjustments	Total
				'000 USD			
External sales	132,320	428,091	205,738	34,442	-	-	800,591
Inter-segment sales	27,417	2,183	2,889	24,320	-	(56,809)	-
Segment revenue	159,737	430,274	208,627	58,762	-	(56,809)	800,591
Total segment operating expenses	(143,338)	(366,323)	(152,329)	(24,281)	(23,522)	66,832	(642,961)
Segment result	16,399	63,951	56,298	34,481	(23,522)	10,023	157,630
Segment non-cash items:							
Depreciation and amortization	(25,217)	(10,548)	(32,181)	(3,490)	(1,381)	-	(72,817)
Impairment reversal on tangible fixed assets	38,644	-	-	-	-	-	38,644
Bad debt (charge) / release	(1,747)	(2,264)	117	(61)	(167)	-	(4,122)

Other material items of income/expense:							
Profit on disposal of available- for -sale investments	-	-	-	-	419,918	-	419,918
(Loss)/profit on disposal of tangible fixed assets	(4,855)	1,579	(2,075)	11	101	-	(5,239)
Interest expense, share of profit/(loss) of associates and income tax expense:							
Interest expense	(16,083)	(2,807)	(25,699)	(329)	(26,825)	17,770	(53,973)
Share of profit/(loss) of equity accounted investees	1,103	(78)	(2,795)	7,690	-	-	5,920
Income tax expense	(3,054)	(7,699)	(2,192)	(7,774)	(178)	-	(20,897)

Segmental assets and liabilities

	Assets		**Liabilities**	
	31 December 2011	**31 December 2010**	**31 December 2011**	**31 December 2010**
	'000 USD			
Shipping (Global)	561,363	635,101	249,732	241,569
Liner and logistics (Global)	185,723	172,993	87,988	73,316
Railway services (Russia)	681,290	435,410	425,874	224,030
Stevedoring services (Russia)	439,933	145,624	19,213	17,774
Total of all segments	1,868,309	1,389,128	782,807	556,689
Goodwill	213,873	200,252	-	-
Other items not attributable to a specific segment	250,956	523,934	109,427	29,331
Consolidated	2,333,138	2,113,314	892,234	586,020

Other segmental information

	Acquisition of segment assets		**Investments in equity accounted investees**	
	31 December 2011	**31 December 2010**	**31 December 2011**	**31 December 2010**
	'000 USD			
Shipping (Global)	35,901	82,032	1,121	1,074
Liner and logistics (Global)	6,054	3,580	7,280	2,350
Railway services (Russia)	332,062	14,876	15,294	14,014
Stevedoring services (Russia)	276,120	7,987	81,572	83,196
	650,137	108,475	105,267	100,634

23. Revenue

	2011	2010
	'000 USD	
Transportation services (operators' business)	814,211	607,913
Hire and freight	114,702	132,320
Port and stevedoring services	48,559	34,436
Revenue from rentals	39,235	16,739
Agency fees	12,048	9,183
	1,028,755	800,591

24. Operating Expenses

	2011	2010
	'000 USD	
Railway infrastructure tariff and transportation services	444,066	319,611
Voyage and vessel running cost	110,726	92,935
Payroll expenses	62,196	52,249
Stevedoring services	7,659	11,296
Operating lease	47,579	60,003
Non-profit based taxes	7,599	8,130
	679,825	544,224

25. Administrative Expenses

	2011	2010
	'000 USD	
Salary and other staff related costs	86,315	54,648
Professional fees	7,766	12,174
Office rent	8,113	6,468
Other administrative expenses	30,997	25,447
	133,191	98,737

Salary and other staff related costs include share based payment release in amount of USD 0.8 million (2010: USD 3 million release).

26. Other Finance Income and Costs

	2011	2010
	'000 USD	
Interest income	12,354	6,648
Changes in fair value of financial instruments	(10,800)	(19,707)
Other expenses	(203)	(836)
	1,351	(13,895)

27. Loss on Disposal of Tangible Fixed Assets

	2011	2010
	'000 USD	
Loss on sale of vessels	(837)	(5,182)
Gain/(loss) on disposal of other fixed assets	525	(57)
	(312)	(5,239)

28. Reversal of/(Impairment loss) on Tangible Fixed Assets

	2011	2010
	'000 USD	
Fleet impairment (charge)/ reversal (Note 6)	(41,424)	73,107
Impairment of vessels under construction (Note 6)	(149)	(34,463)
Impairment of other fixed assets and assets under construction (note 8)	(5,042)	-
	(46,615)	38,644

29. Profit 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.

	31 December 2011	31 December 2010
	USD	
Profit for the year	19,253,000	449,352,000
Weighted average number of shares in issue (note 20)	2,557,544,193	2,557,544,193
Basic profit per share	0.008	0.176

	31 December 2011	31 December 2010
	USD	
Profit for the period, adjusted for stock option expense	18,466,861	452,445,000
Weighted average number of shares in issue, adjusted for stock options (note 21)	2,537,879,704	2,579,564,745
Diluted profit per share	0.008	0.175

Since the exercise of the option results in anti-dilutive effect the diluted earnings per share equal to basic ones.

30. Acquisitions of Subsidiary

On 07 July 2011 the Group obtained control over MetizTrans Group railway operator by acquiring 100% of shares and voting interests in OOO MetizTrans, OOO Investconsulting and OOO TEK MetizTrans. The acquisition was made from a member of management of the Group.

In the six months period to 31 December 2011 MetizTrans Group contributed revenue of USD 19 million and profit of USD 4 million to the Group results.

It was not practicable to estimate what consolidated revenue and consolidated result for the year would have been if the acquisition of MetizTrans Group had occurred on 1 January 2011 since the acquired companies did not prepare consolidated financial statements.

The acquisition of the subsidiary had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised fair values on acquisition
	'000 USD
Non-current assets	
Property, plant and equipment	55,619
Current assets	
Inventories	384
Trade and other receivables	11,377
Cash and cash equivalents	3,827
Non-current liabilities	
Loans and borrowings	(10,210)
Finance lease liability	(26,239)
Deferred tax liabilities	(1,130)
Current liabilities	
Loans and borrowings	(1,036)
Finance lease liability	(2,054)
Trade and other payables	(7,746)
Net identifiable assets	**22,792**
Goodwill	26,425
Consideration paid	49,217
Cash acquired	3,827
Net cash outflow in the cash flow statement	**45,390**

Subsequent to the balance sheet date, the Group decided to sell its non-container railroad business (note 35).

31. Derivatives

To manage its exposure to variability in cash flows arising from interest rate and exchange rate fluctuations, the Group uses a number of derivative financial instruments:

	31 December 2011		31 December 2010	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
	'000 USD		'000 USD	
Non-current				
Interest rate swaps	-	(19,709)	24	(17,530)
Cross currency interest rate swaps	-	(1,702)	-	(3,542)
	-	(21,411)	24	(21,072)
Current				
Interest rate swaps	20	(8,886)	66	(8,062)
Cross currency interest rate swaps	-	(1,699)	-	(3,563)
	20	(10,585)	66	(11,625)
	20	(31,996)	90	(32,697)

As at 31 December 2011, the Group held a number of interest rate swap contracts for hedging the interest rate risk, namely:

- Interest rate swap contracts with VTB intended for hedging the interest rate risk arising from external borrowings. The contracts to swap Libor against fixed rates vary from 3.62% to 6.04% per annum with maturities on 1 May 2012, 29 September 2013, 31 January 2016, 30 October 2022 and 30 December 2022. Notional amount of hedged facilities equals to USD 114.2 million (2010: USD 129.2 million);

- Interest rate swap contracts with Citibank. The swap contracts set out Libor floor rate and cap rate at 4.70% and 5.95% respectively. The Group is required to make payment to Citibank when Libor is below the floor rate and receive payment when Libor exceeds the cap rate. Maturity date of the agreement is 30 June 2022 and 30 September 2022. Notional amount of hedged facilities equals to USD 61 million (2010: USD 67 million);

- Interest rate swap contracts with international bank: the contracts swap Libor 3M against fixed rate of 2.64% with the maturity date during 2013. Notional amount of hedged facilities equals to USD 53.8 million (2010: USD 68 million).

Additionally, the Group has entered into cross currency interest rate swap contract with Merrill Lynch Bank, intended for hedging the exchange rate and interest rate risks. In accordance with the swap contract terms, the company pays 3-month London Interbank Offered Rate ("Libor") + 4.35% and 3-month Libor + 4.05% in United States Dollars in exchange for 3-month Mosprime + 2.85% and 3-month Mosprime + 3.15% in Russian Roubles. The agreement is valid for the period from 20 June 2008 to 5 September 2012. Notional amount of hedged facilities equals to USD 15.6 million (2010: USD 36.1 million).

The management considered that these financial instruments do not meet all the required characteristics of hedge accounting and all changes in the fair value of derivatives are recognised in the income statement.

The fair value of swap is determined by brokers using financial models which correspond to level "2" of the hierarchy of the fair values.

For maturity analysis of cash flows hedges see Note 33.

The fair value of the swaps equals their book values.

32. Contingencies and Commitments

(a) Capital commitments

The Group's commitments which mainly relate to new buildings fall due as follows:

	31 December 2011	31 December 2010
	'000 USD	
In one year	8,744	42,746
Total outstanding commitment	8,744	42,746

At 31 December 2011 the Group has no other capital commitment (2010: USD 6.6 million for acquisition of rolling stock).

(b) Operating lease commitments – where a Group company is the lessee

The Group leases rolling stock, berths and office premises under non-cancellable lease agreements. As at the year end all non-cancellable operating lease agreements are for a period of less than 12 months with renewal options.

At 31 December 2011, the Group had the following outstanding commitments under non-cancellable operating leases.

	31 December 2011	31 December 2010
	'000 USD	
Within one year	21,422	22,019
In two to five years	19,879	11,963
	41,301	33,982

(c) Operating lease commitments – where a Group company is the lessor

Operating lease proceeds receivable by the Group under a non-cancellable operating lease contract (including long-term time charter) are as follows:

	31 December 2011	31 December 2010
	'000 USD	
Within one year	15,906	21,842
	15,906	21,842

(d) 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 financial statements could be significant.

Russian tax law and practice are not as clearly established as those of more developed market economies. Russian tax laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent and selective enforcement. As a result, sometimes taxpayers are being challenged as to structures and transactions which have not been challenged or litigated as a result of prior tax audits. Taxation of companies in the transportation and freight forwarding industry in particular has historically been a vague area in the Russian tax legislation leaving a room for interpretation by the tax authorities.

From 1 January 2011 amendments into Russian tax legislation related to VAT treatment of transportation and related services (in particular, application of the 0% VAT rate) came into force. The VAT law was further changed with effect from 1 October 2011. However, certain ambiguity as to VAT treatment of some transportation and related services still remain and the new rules have not yet been tested in courts. Therefore, the interpretations of the new law by the Russian tax authorities and by the customers of the Group transportation companies could differ from that taken by the Group and the effect on these consolidated financial statements if the resulting disputes are not resolved in favour of the company could be material.

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, different interpretations exist amongst numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are able by law to impose severe fines, penalties and interest charges. The tax authorities are increasingly taking a more assertive position in their interpretation and enforcement of tax legislation.

These facts may create tax risks in Russia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(e) Business environment

Part of the Group's operations is located in the Russian Federation and Ukraina. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation and Ukraina 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 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.

33. Financial Risk Management Objectives and Policies

Capital Risk Management

The Group manages its capital to ensure that it can continue to operate and expand their operations while at the same time maximising returns to shareholders through the optimisation of the debt-equity balance. This strategy remains unchanged from prior year.

The Group is financed by a combination of borrowing and equity attributable to shareholders. Borrowing comprises long and short term loans (as disclosed in Note 18) and is monitored net of cash and cash equivalents. Equity attributable to shareholders comprises issued share capital, share premium, retained earnings and other reserves less treasury shares (as disclosed in notes 21).

The Group is not subject to externally imposed capital requirements other than those included, from time to time, in the financial covenants associated with bank borrowing and those, imposed by the Russian legislation.

The Board of Directors monitors the capital structure of the Group taking into account the costs and risks associated with each category of capital. The Group's net debt to equity ratio is the primary tool used in the monitoring process. No formal targets have been set to maintain a net debt to equity ratio on a definite level.

The Group's net debt to equity ratio at the year end was as follows:

	31 December 2011	31 December 2010
	'000 USD	
Net debt		
Long term borrowing	498,511	302,746
Short term borrowing	198,938	122,391
Less bank and cash balances	(231,576)	(556,288)
	465,873	(131,151)
Equity attributable to equity shareholders of the Company	1,426,508	1,515,885
Net debt to equity ratio	33%	-

Major categories of financial instruments.

The Group's principle financial liabilities comprise borrowings, finance leases, trade and other payables.

The main risks arising from the Group's financial instruments are market risk which includes foreign currency and interest rate risk, credit and liquidity risks.

The Board of Directors has overall responsibility for the establishment and overseeing of the Group's risk management framework. The Group Audit Committee is responsible for developing and monitoring the Group's risk management policies.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which the customer operates, has less of an influence on a credit risk. There is no concentration of credit risk with a single customer.

Each company within the Group establishes its own credit policy taking into account the specifics of the sector and the company's customer base.

The majority of the Group's customers have been transacting with the Group companies for many years and losses arising from this category of customer are infrequent.

Policies established by Group companies for new customers will generally involve some form of credit check based on the available information. Where a customer is not deemed creditworthy the Group will generally only offer services on a prepayment basis.

The Group has provided fully for all receivables over one year because historical experience is such that receivables that are past due beyond one year are generally not recoverable.

The Group's maximum exposure to credit risk in relation to each class of recognised financial asset is the carrying amount of those assets as stated in the balance sheet and was as follows:

	31 December 2011	**31 December 2010**
	'000 USD	
Investments available-for-sale	196,854	162,979
Prepayment for investment, at cost	292,935	-
Accounts receivable	178,189	147,288
Current tax assets	9,730	2,455
Other current assets	8,113	2,160
Cash and cash equivalents	231,576	556,288
	917,397	871,170

The ageing profile of trade receivables was:

	31 December 2011		**31 December 2010**	
	'000 USD			
	Total book value	**Allowance for impairment**	**Total book value**	**Allowance for impairment**
Current	32,870	95	35,901	3,326
Overdue 90 days	5,317	202	4,114	190
Overdue 91 days to one year	7,257	1,936	4,177	854
Overdue more than one year	20,833	20,649	22,106	22,106
	66,277	22,882	66,298	26,476

During the year, the Group had the following movement on allowance for trade receivables:

	31 December 2011	**31 December 2010**
	'000 USD	
Balance as at 1 January	26,476	27,078
Uncollectible receivables written off during the year	(5,948)	(4,396)
Increase in allowance	2,354	3,794
Balance as at 31 December	22,882	26,476

Other assets of the Group with exposure to credit risk include cash and advances to suppliers. Cash is placed with reputable banks. Advances to suppliers mainly include prepayments for transportation services and prepayments to Russian Railway. Management does not expect these counterparties to fail to meet their obligations.

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales, purchases, finance leases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the RUB and USD.
Borrowings and interest thereon are generally denominated in currencies that match the cash flows generated by the underlying operations of the Group, this providing an economic hedge.
In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

At 31 December 2011, the Group had the following monetary assets and liabilities denominated in currencies other than the functional currency of the respective Group entity:

	USD	RUB	Other currencies
		'000 USD	
Assets			
Other non-current assets	6,787	-	-
Accounts receivable	14,995	12,792	3,513
Other current assets	1,851	-	-
Bank and cash balances	19,148	2,167	3,268
Intra-group assets	15,722	40,579	-
	58,503	55,538	6,781
Liabilities			
Accounts payable	7,106	6,986	5,113
Loans and other obligations	65,683	24,351	7,898
Intra-group liabilities	18,050	66,031	277
	90,839	97,368	13,288
	(32,336)	(41,830)	(6,507)

Other currencies include EURO primarily.

At 31 December 2010, the Group had the following monetary assets and liabilities denominated in currencies other than the functional currency of the respective Group entity.

	USD	RUB	Other currencies
		'000 USD	
Assets			
Other non-current assets	8,636	869	-
Accounts receivable	11,889	8,610	11,499
Other current assets	740	-	-
Bank and cash balances	9,271	1,991	5,294
Intra-group assets	10,533	17,797	228
	41,069	29,267	17,021
Liabilities			
Accounts payable	7,283	6,615	7,780
Loans and other obligations	76,757	16,703	4,162
Intra-group liabilities	33,461	10,986	277
	117,501	34,304	12,219
	(76,432)	(5,037)	4,802

The Group has entered into a number of currency options as a part of managing its exposure to foreign currency risks. The option contracts are stated at their fair value with the movements in fair value recognised in the profit and loss, see Note 31.

Foreign currency sensitivity analysis

The table below details the Group's sensitivity to strengthening/weakening of USD against the RUB by 10% which represents management's assessment of the possible change in foreign currency exchange rates.

	RUB/USD impact			
'000 USD	**31 December 2011**	**31 December 2011**	**31 December 2010**	**31 December 2010**
	RUB/USD +10%	**RUB/USD -10**	**RUB/USD +10%**	**RUB/USD -10%**
Profit or (loss)	3,234	(3,234)	7,643	(7,643)

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's interest risk mainly arises from its debt obligations in particular non-current borrowings. Borrowing at variable rates exposes the Group to cash flow interest rate risk. Lending at fixed rates or the purchase of debt instruments at fixed rates expose the Group to changes in the fair value.

The Group constantly reviews its debt portfolio and monitors the changes in the interest rate environment to ensure that interest payments are within acceptable levels. Information relating to interest rates on the Group's borrowings is disclosed in Note 17.

Structure of interest rate risk.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments, excluding the effect of derivative financial instruments, was:

	Carrying amount	
	31 December 2011	**31 December 2010**
	'000 USD	
Fixed rate instruments		
Cash and cash equivalents	159,429	490,000
Loans and promissory notes receivable	1,575	4,014
Long term deposits	1,944	3,361
Finance lease receivable	8,638	9,376
Borrowings and finance lease obligations	(440,190)	(169,658)
Receivables from KUKE and shipyard	-	1,100
	(268,604)	338,193
Variable rate instruments		
Borrowings	(257,259)	(255,479)
	(257,259)	(255,479)

Interest rate sensitivity analysis

The table below details the Group's sensitivity to increase or decrease of floating interest rates by 1%. The analysis was applied to loans and borrowings (financial liabilities) based on the assumption that the amount of liability outstanding as at the balance sheet date was outstanding for the whole year.

LIBOR impact		MOSPRIME impact	
31.12.2011 Interest rate +1%	31.12.2011 Interest rate -1%	31.12.2011 Interest rate +1%	31.12.2011 Interest rate -1%
'000 USD	'000 USD	'000 USD	'000 USD
(1,337)	1,337	(184)	184

(c) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2011	**Level 1**	**Level 2**	**Level 3**
		'000 USD	
Investments available for sale	196,854	-	-
Share-based payments liability	-	-	(3,903)
Interest rate swap liability	-	(31,996)	-
	196,854	(31,996)	(3,903)

31 December 2010	**Level 1**	**Level 2**	**Level 3**
		'000 USD	
Investments available for sale	162,979	-	-
Share-based payments liability	-	-	(4,690)
Interest rate swap liability	-	(32,697)	-
	162,979	(32,697)	(4,690)

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group has in place a detailed budgeting and cash flow forecasting process to help ensure that it has sufficient cash to meet its payment obligations.

Loans, borrowings, finance lease and other payables

	Carrying value	Minimum future payment	Less than 3 month	3-6 month	6-12 month	1-5 years	Later than 5 years
				'000 USD			
As at 31 December 2011							
Loans	554,581	554,581	11,908	102,539	63,826	329,898	46,410
Interest payable on loans	3,119	84,042	9,539	7,323	14,967	47,288	4,925
Finance leases	142,868	197,815	10,114	9,269	18,536	145,867	14,029
Interest swap	31,996	32,681	2,406	3,892	4,972	21,411	-
Trade and other payables	74,633	74,633	73,707	512	129	285	-
Share-based payments	3,903	3,903	-	-	-	3,903	-
Defined benefit obligations	1,642	1,642	-	-	-	1,642	-
Other non-current payables	180	180	-	-	-	180	
Total	812,922	949,477	107,674	123,535	102,430	550,474	65,364
As at 31 December 2010							
Loans	378,861	378,861	35,095	17,596	59,714	207,611	58,843
Interest payable on loans	1,539	51,339	4,627	4,906	8,118	28,207	5,481
Finance leases	46,276	60,275	5,846	2,752	5,207	39,508	6,962
Interest swap	32,697	32,697	2,028	3,550	6,047	21,068	4
Trade and other payables	75,681	75,681	70,205	3,636	1,840	-	-
Share-based payments	4,690	4,690	-	-	-	4,690	-
Defined benefit obligations	832	832	-	-	-	832	-
Other non-current payables	691	691	-	-	-	691	-
Total	541,267	605,066	117,801	32,440	80,926	302,607	71,290

34. 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 ten individuals were considered to be the Group's key management and directors (2010 – eleven individuals). Their remuneration during the period was as follows:

	31 December 2011	31 December 2010
	'000 USD	
Salaries	2,692	1,727
Bonuses	2,066	2,638
Board of directors remuneration	1,252	638
	6,010	5,003
Share options expense	-	3,093
	6,010	8,096

During the year the share option liability decreased resulting in a gain of USD 0.8 million.

Statement of financial position	31 December 2011	31 December 2010	Nature of balances
	'000 USD		
Non-consolidated subsidiaries	23	781	Trade receivables
Non-consolidated subsidiaries	(141)	-	Trade payables
Associates	1,550	3,502	Agency and other service
Joint Venture Company	(2,169)	(2,485)	Trade payables
Joint Venture Company	2,475	1,609	Trade receivables
Non-consolidated subsidiaries	-	699	Loan issued
Joint Venture Company	(12,702)	-	Loan payable
Related through management	143	-	Loan issued
Joint Venture Company	1,800	2,660	Loan issued
Related through common shareholder	72,157	148,281	Cash and cash equivalents
Joint Venture Company	8,638	9,376	Finance lease receivable

Income Statement	31 December 2011	31 December 2010	Nature of transactions
	'000 USD		
Non-consolidated subsidiary purchases	(1,494)	(1,148)	Agency Services
Non-consolidated subsidiary sales	190	236	Agency Services
Associates purchases	(2,204)	(3,644)	Agency services, rent and security expenses
Joint Venture Company purchases	(4,674)	(5,849)	Agency ,transportation and stevedoring services
Joint Venture Company sales	2,588	1,914	Transportation services
Joint Venture Company	1,771	1,571	Finance lease and interest income
Related through common shareholder	2,962	641	Interest income
Related through common shareholder	(288)	-	Interest expense
Related through common shareholder	-	(27,000)	Selling expenses related to disposal of investment

35. Events Subsequent to the Reporting Date

a) In January, 2012 Group has announced its plan to sell non-container railroad business of Transgarant Group. This decision was made within container business development strategy framework. Structure of the transaction suggests fitting platforms and warehouse complex Stroyoptorg will stay in Group. At the moment Group is actively searching for the buyer and plans to close the transaction in first half-year, 2012;

b) 2.6% of Global Depository Receipts (GDR) of TransContainer OJSC was delivered to the Group in January 2012. As a consequence TransContainer became an associate of the Group;

c) FESCO Smolensk, a 57,000 dwt dry cargo bulk vessel, was delivered to the Group on 19 January 2012;

d) 100% of shares of Transportnaya Companiya CJSK, which in turn owns 47.78% shares of Commercial Port of Vladivostok, were delivered to the Group in March 2012. As a result, the commercial Port of Vladivostok became a Group subsidiary. The Group has not completed the accounting for business combination yet;

e) In March 2012 the Group voluntary prepaid loan facility arranged by SMBC in the total amount of USD 47 million. This prepayment was made as part of Transgarant sale process;

f) In March 2012 the Group entered into a short-term loan for the amount of USD 46.25 million;

g) Subsequent to the balance sheet date the Group classified certain non-current assets with the carrying value of USD 96 million as held-for-sale. The Group management expects to realize these assets at their fair values.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Unaudited

Consolidated Schedule of Fleet at 31 December 2011

	Year of Building	Deadweight Tonnage	Book Value '000 USD	Insured Value '000 USD
Bulk				
Ivan Makarin	1982	19,252	3,680	3,700
Kapitan Tsirul	1982	19,252	3,680	3,700
Cheremkhovo	1984	23,242	3,697	3,875
Chelyabinsk	1984	23,242	3,697	3,875
Fesco Aleksandrov	1986	24,105	3,511	3,875
Fesco Angara	1985	37,155	3,677	8,375
Fesco Yenisei	1985	37,178	3,666	8,375
Fesco Ob	1986	36,690	4,671	8,625
Amur	1997	7,207	4,984	5,750
Ussuri	2002	7,212	5,986	6,750
Khudozhnik Kraynev	1986	24,105	3,529	3,875
Fesco Saratov	2011	57,000	27,996	28,500
Fesco Simpferopol	2011	57,000	27,959	28,000
		372,640	100,733	117,275
Container				
Kapitan Krems	1980	5,720	1,918	2,100
Kapitan Gnezdilov	1980	5,720	1,918	2,100
Kapitan Sergiyevskiy	1981	5,629	1,918	2,100
Kapitan Artyukh	1986	9,141	2,438	2,550
Krasnogvardeyets	1986	9,141	2,438	2,550
Kapitan Lyashenko	1987	8,717	2,631	2,750
Khudozhnik N. Rerikh	1989	8,579	2,631	2,750
Kapitan Afanasyev	1998	23,380	7,398	10,750
Kapitan Maslov	1998	23,380	7,394	10,750
Vladivostok	1998	23,380	8,372	11,750
Fesco Trader	1997	15,231	5,634	8,250
Fesco Voyager	1998	15,231	5,996	8,750
Fesco Ascold	2006	13,760	13,334	16,500
Fesco Vitim	2008	22,750	21,367	27,500
Fesco Voronezh	2008	22,750	21,340	27,500
Fesco Vladimir	2009	22,750	22,293	28,500
Fesco Diomid	2009	42,274	34,243	46,000
		277,533	163,263	213,150
General Cargo				
Pioner Kirgizii	1978	6,780	1,849	1,800
Abakan	1990	7,365	2,575	3,625
Fesco Shatrova	1990	7,365	2,321	3,625
Fesco Ilyinskiy	1990	7,365	2,146	3,625
Fesco Sinegorsk	1991	7,365	2,522	3,625
Fesco Vysokogorsk	1991	7,365	2,567	3,625
Vasiliy Golovnin	1988	10,700	6,743	6,750
		54,305	20,723	26,675

	Year of Building	Deadweight Tonnage	Book Value '000 USD	Insured Value '000 USD
Ro-Ro				
Igarka	1983	23,024	4,921	5,125
Anatoliy Kolesnichenko	1985	22,845	5,003	5,375
Kapitan Man	1985	22,845	5,003	5,375
Vasiliy Burkhanov	1986	22,845	5,003	5,375
Fesco Gavriil	1976	4,600	2,547	2,700
Fesco Nikolay	1984	5,500	2,965	3,125
Fesco Uelen	2006	3,023	2,368	3,250
Fesco Ulan Ude	1985	3,199	1,254	2,250
		107,881	29,064	32,575
	Total	**812,359**	**313,783**	**389,675**