

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

CONSOLIDATED FINANCIAL STATEMENTS

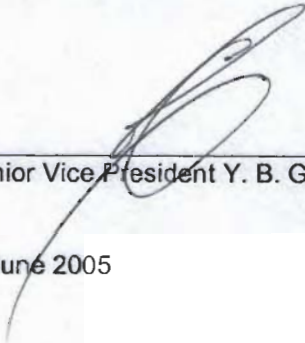
31 DECEMBER 2004



STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of Far-Eastern Shipping Company PLC ("the Group"). They have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on judgements and estimates by management.

The Group maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Group's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.



Senior Vice President Y. B. Gilts



Chief Accountant A.P. Nazarov

30 June 2005

**Report of the Auditors to the Members of
Far-Eastern Shipping Company PLC**

We have audited the accompanying balance sheet of Far-Eastern Shipping Company PLC and its subsidiaries as of 31 December 2004 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, as set out on pages 3 to 25. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004 and of the results of its operations and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens Vladivostok

MOORE STEPHENS VLADIVOSTOK

30 June 2005



**Far-Eastern Shipping Company PLC
and its subsidiaries**

Consolidated Balance Sheet – 31 December 2004
(Expressed in USD'000s)

	Note	2004	2003
Non-Current Assets			
Fleet	3	550,760	342,166
Other fixed assets	4	42,956	39,458
Assets under construction	5	44,785	15,636
		<u>638,501</u>	<u>397,260</u>
Long Term Debtors		-	221
Long Term Investments	6	3,313	2,479
Current Assets			
Inventories	7	4,813	4,221
Voyages in progress		1,175	1,227
Accounts receivable	8	62,710	36,635
Investments available for sale	9	1,435	747
Bank and cash balances	10	40,911	33,943
		<u>111,044</u>	<u>76,773</u>
Less: Current Liabilities			
Accounts payable	11	52,172	36,771
Loans and other obligations	12	21,238	13,367
		<u>73,410</u>	<u>50,138</u>
Net Current Assets		37,634	26,635
Deferred tax	13	(45,660)	(25,084)
		<u>633,788</u>	<u>401,511</u>
Financed by:-			
Share capital	14	4,130	4,130
Retained earnings		429,251	336,785
Other reserves	15	132,779	22,221
		566,160	363,136
Minority interest	24	281	-
Long term loans and other obligations	12	67,347	38,375
		<u>633,788</u>	<u>401,511</u>

Senior Vice President Y.B. Gilts

Chief Accountant A.P. Nazarov

**Far-Eastern Shipping Company PLC
and its subsidiaries**

**Consolidated Income Statement
For the year ended 31 December 2004**

(Expressed in USD'000s)

	Note	2004	2003
Income			
Hire and freight income		449,694	346,235
Voyage and running costs		<u>(331,906)</u>	<u>(257,455)</u>
Profit on vessels' trading		117,788	88,780
Profit on ancillary operations		422	466
Interest receivable		1,571	994
Result of investment activity		344	403
Negative goodwill	24	1,330	-
Other income		<u>6,813</u>	<u>6,564</u>
		<u>128,268</u>	<u>97,207</u>
Expenses			
Depreciation			
Fleet	3	(25,725)	(19,676)
Other fixed assets	4	<u>(8,121)</u>	<u>(8,449)</u>
		(33,846)	(28,125)
Administrative expenses		(40,057)	(31,084)
Non- profit based taxes	16	(1,325)	(1,205)
Bad debt provision release	8	1,168	3,162
Interest payable and finance charges		(3,043)	(2,320)
Exchange gain		<u>3,308</u>	<u>2,418</u>
		<u>(73,795)</u>	<u>(57,154)</u>
Profit before taxation and assets disposals and revaluations		54,473	40,053
Profit on disposal of fixed assets and investments	18	2,282	1,305
Fair value adjustments	19	<u>49,975</u>	<u>74,209</u>
Profit before Taxation		106,730	115,567
Taxation	16	<u>(19,715)</u>	<u>(19,911)</u>
Profit before minority interest		87,015	95,656
Minority interest		<u>(50)</u>	<u>-</u>
Profit for the year		86,965	95,656
Profit per share	20	USD 0.053	USD 0.058

**Far-Eastern Shipping Company PLC
and its subsidiaries**

**Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2004**

(Expressed in USD'000s)

	Share Capital (Note 14)	Retained Earnings	Other Reserves (Note 15)	Total
Balance at 1 January 2003	4,130	241,339	3,013	248,482
Profit for the year	-	95,656	-	95,656
Deferred tax liability arising on revaluation of fleet	-	-	(6,422)	(6,422)
Translation difference	-	(708)	258	(450)
Release from investment reserve on disposal	-	-	262	262
Release from revaluation reserve – annual	-	498	(498)	-
Revaluation of fleet	-	-	25,608	25,608
Balance 31 December 2003	4,130	336,785	22,221	363,136
Profit for the year	-	86,965	-	86,965
Deferred tax liability arising on revaluation of fleet	-	-	(13,154)	(13,154)
Translation difference	-	91	(93)	(2)
Release from revaluation reserve – annual	-	5,410	(5,410)	-
Revaluation of fleet	-	-	129,215	129,215
Balance 31 December 2004	4,130	429,251	132,779	566,160

The availability of the Company's retained earnings for distribution to shareholders is determined by the Company's Articles of Association and by Russian legal and fiscal regulations and does not correspond with the figures shown above.

**Far-Eastern Shipping Company PLC
and its subsidiaries**

**Consolidated Cash Flow Statement
For the year ended 31 December 2004**

(Expressed in USD'000s)

	Note	2004	2003
Cash Flow from Operating Activities			
Hire and freight received		429,568	337,819
Payments for voyage and running costs		(315,841)	(260,721)
Other cash receipts		7,235	7,030
Other cash payments		(48,465)	(37,559)
		<u>72,497</u>	<u>46,569</u>
Cash generated by operations			(4,851)
Taxation		(10,822)	
Net cash generated by operating activities	17	61,675	41,718
Cash Flow from Investing Activities			
Expenditure on vessels under construction		(29,150)	(15,636)
Vessels acquired		(62,234)	-
Expenditure on other fixed assets		(20,850)	(1,576)
Proceeds on disposal:			
Fleet		15,500	423
Other fixed assets		6,345	1,874
Investments acquired		(7,383)	(2,830)
Proceeds on sale of investments		1,563	8,863
Cash assets of subsidiaries not consolidated last year		1,858	-
Interest and investment income		1,790	1,397
		<u>1,790</u>	<u>1,397</u>
Net cash used in investing activities		(92,561)	(7,485)
Cash Flow from Financing Activities			
Loan repayments		(20,726)	(20,726)
Finance charges		(3,043)	(2,320)
Loans drawn down		57,569	3,807
		<u>57,569</u>	<u>3,807</u>
Net cash generated by / (used in) financing activities		33,800	(19,239)
Exchange Differences		4,054	1,705
Net increase in Cash and Cash equivalents		6,968	16,699
Cash and Cash equivalents at 1 January		33,943	17,244
Cash and Cash equivalents at 31 December	10	<u>40,911</u>	<u>33,943</u>

**Far-Eastern Shipping Company PLC
and its subsidiaries**

Notes to the Consolidated Financial Statements – 31 December 2004

1. Accounting Policies

(a) Basis of accounting

These financial statements have been prepared in U.S. Dollars, under the historical cost convention as modified by the revaluation of the Group's fleet and fair valuing certain investments in accordance with the accounting and reporting requirements of the standards issued by the International Accounting Standards Board ("IASB") and interpretations as adopted by the International Financial Reporting Interpretations Committee of the IASB.

The significant accounting policies adopted by the Group have been consistently applied with those of the prior year and are as follows:

(b) Basis of consolidation

These financial statements include the accounts of Far-Eastern Shipping Company PLC ("FESCO") and its principal subsidiaries ("the Group") as indicated in Note 24.

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 interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Certain subsidiaries and associate companies 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 at fair value as estimated by management. Where it is not possible to accurately estimate fair values they are recorded at historical cost.

(c) Fixed assets and depreciation

Fleet

The fleet is stated on an individual vessel basis at market value as assessed by management and supported by independent professional valuations and calculations of value in use. Other fixed assets are stated at the lower of cost and recoverable amount (where appropriate recoverable amounts are estimated by management) less accumulated depreciation.

Fleet depreciation

Depreciation has been provided on a straight-line basis on book value less an estimated scrap value, based on anticipated useful lives of 25 years from date of building.

Other fixed assets depreciation

Other fixed assets are depreciated on a straight line basis at the following rates:

Buildings	7% per annum
Machinery, equipment and other fixed assets	5 - 20% per annum
Computers	33% per annum

Impairment

The carrying amounts of the Group's fixed assets are reviewed at each balance sheet date to determine whether there is any indication of material impairment. Where appropriate recoverable amounts are estimated by management.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The impairment loss is charged to the profit and loss account unless it reverses a previous revaluation in which case it will be charged to equity.

**Far-Eastern Shipping Company PLC
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Notes to the Consolidated Financial Statements – 31 December 2004

Accounting Policies (Continued)

(d) Currency translation

The financial statements are presented in U.S. Dollars as this is the principal functional currency of the Group.

Liabilities and current assets in other currencies at the balance sheet date are translated into U.S. Dollars at the relevant rates ruling on that date. For the purposes of these financial statements, liabilities and current assets denominated in Roubles have been translated at a rate of 29.7487 Roubles = USD1 (2003 – 29.4545 Roubles = USD1).

Transactions during the year in Roubles have been translated into U.S. dollars at the actual rates ruling on the date of the transaction. Fixed assets purchases originally recorded in Roubles have been translated into U.S. dollars at estimated historic rates. Share capital issued at the date of the Company's privatisation has been translated at the rate of 455 old Roubles = USD1. Share capital issued since this date has been translated at the rate prevailing on the date of issue.

Differences on exchange arising on the application of the above policy are dealt with in the Income Statement.

The financial statements of non-Dollar subsidiaries are translated into U.S. Dollars at the rate ruling at 31 December 2004 for balance sheet items and at the average rate for the year for income statement items. For the purposes of these financial statements, liabilities and current assets denominated in Australian Dollars have been translated at a rate of AUS\$1.28 = USD1 (2003 – AUS\$1.53 = USD1). Differences on exchange arising on the application of this policy are dealt with in reserves.

(e) Fleet revaluation reserve

Increases over historical cost book values arising from the revaluation of the fleet are transferred to revaluation reserve. In case of downward revaluations decreases are charged to the revaluation reserve until they exceed historical cost book values when they are charged to the Income Statement.

The balance of the reserve is released on an individual vessel basis to retained earnings in equal annual instalments over the remaining anticipated useful lives of the vessels or on disposal if earlier.

(f) Dry-docking and special surveys

Dry-docking and special survey costs are expensed as incurred.

(g) Inventories

Inventories are stated at the lower of cost, calculated on a weighted average basis, and net realisable value and comprise bunkers, victualling stocks, stores and spares.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and on deposit with banks.

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less at the time of purchase.

**Far-Eastern Shipping Company PLC
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Notes to the Consolidated Financial Statements – 31 December 2004

1. Accounting Policies (Continued)

(i) Revenue recognition

The Group recognises trading income on an accruals basis.

Credit is taken for the appropriate share of profits on voyage charters in progress at the balance sheet date, calculated under the percentage of completion method. Full provision is made for any losses on voyages in progress at the balance sheet date. The results of time charters in progress at the balance sheet date are apportioned into the relevant accounting period.

(j) Investments and investment income

Investments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement. Other investments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised in the income statement. The fair value of investments held for trading and investments available-for-sale is their quoted bid price at the balance sheet date.

Investments held for trading and available-for-sale investments are recognised / derecognised by the Group on the date it commits to purchase / sell investments. Investments held-to-maturity are recognised / derecognised on the day they are transferred to / by the Group.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured are stated at historical cost less impairment provisions where appropriate. Investment income is credited when received.

(k) Deferred taxation

Provision is made for deferred taxation on all temporary differences which arise because the carrying amount of an asset or liability in the balance sheet differs from its tax base. Movements in deferred taxation are charged or credited to the Income Statement except for movements attributable to fleet revaluation surpluses which are dealt with through the revaluation reserve.

(l) Pension scheme

Certain Group companies have established pension and other retirement schemes in accordance with local practices in the countries in which they operate. Full provision is made for the associated liabilities.

(m) Segmental Reporting

The Group does not disclose separate segmental results as, in the view of management, the Group is involved in a single main activity on a global basis.

(n) Financial instruments

The carrying amounts of the Group's financial assets and liabilities (comprising cash and cash equivalents, accounts receivable and payable and long term debtors) approximate to their fair values at the balance sheet date. Where the fair value of a financial asset is materially below its carrying amount the carrying amount is written down to fair value.

**Far-Eastern Shipping Company PLC
and its subsidiaries**

Notes to the Consolidated Financial Statements – 31 December 2004

Accounting Policies (Continued)

(o) Measurement and Presentation Currency

The national currency of the Russian Federation is the Russian rouble ("RUR"). The measurement and presentation currency used in the preparation of these financial statements is the U.S. Dollar ("USD"). Management has determined the USD to be the measurement currency as they consider that the USD reflects the economic substance of the underlying events and circumstances of the Group. In making this assessment, management has considered the following matters:

- A significant portion of the Group's revenues are invoiced and collected in USD;
- The Group's fixed assets are primarily acquired, settled and financed in USD;
- A significant portion of the Group's expenses are denominated and settled in USD;
- A significant portion of the Group's cash balances are retained in USD.

All financial information presented in USD has been rounded to the nearest thousand. The Russian rouble is not a fully convertible currency outside the Russian Federation and, accordingly, any conversion of Russian rouble amounts to US dollars should not be construed as a representation that Russian rouble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

(p) Dividends

Dividends are accounted for in the year in which they are approved by the shareholders.

2. Organisation and Trading Activities

FESCO was privatised and became a joint stock company governed by the laws of the Russian Federation on 3rd December 1992. The Company's registered office and principal place of business is: 15 Aleutskaya Street, Vladivostok 690990, Russia. The Company's shares are quoted on the over-the-counter market and are openly traded.

The Group's ultimate controlling company is OOO "Industrial Investors Group" and ultimate holding company is S.V.G. Holding, Luxemburg.

The Group's principal activities are ship owning, ship management, chartering out and line operating. It has a number of ancillary activities including the management of certain assets.

During 2004 the Group had an average of 5,773 employees (2003- 6,423, including 1,707 in SSRZ and Transfes).

Although FESCO's main trading income is denominated in United States Dollars, it has exposure to economic circumstances prevailing in the Russian Federation. These include legislation requiring the conversion of 25% of foreign currency earnings into Roubles.

**Far-Eastern Shipping Company PLC
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Notes to the Consolidated Financial Statements – 31 December 2004

3. Fleet

	Valuation	Depreciation USD'000s	Net Book Value
At 1 January 2004	342,166	-	342,166
Additions during the year	62,234	-	62,234
Depreciation charge for the year	-	(25,725)	(25,725)
Disposals	(12,887)	650	(12,237)
Revaluation	159,247	25,075	184,322
At 31 December 2004	<u>550,760</u>	<u>-</u>	<u>550,760</u>
Total deadweight tonnage			<u>987,267</u>

At 1 January 2004, the Group's management decided to increase the estimated scrap value of the Group's fleet to USD 250 (2003: USD150) per LWT. This change in accounting estimate was made in reaction to the increase in international steel prices. The effect of the change is a decrease in depreciation by USD6.5 million.

Additions comprise the mv "FESCO Marina", a 33,733DWT bulk carrier launched and delivered to the Group in October 2004, the mv "FESCO Trader", a 15,231DWT container vessel built in 1997 and the mv "FESCO Voyager", a 15,231DWT container vessel built in 1998.

Fleet includes 17 vessels fully depreciated with an aggregate book value of U.S\$16 million at 31 December 2004 (2003 - 15 vessels with NBV U.S\$10 million at 31 December 2003).

The fleet was revalued by the Group's management as at 31 December 2004 supported by independent professional valuations carried out in January 2005 and calculations of value in use. The resulting adjustment of USD184.3 million has been dealt with through the Revaluation Reserve (USD 129.2 million) and the Income Statement (USD 55.1 million).

Value in use has been calculated based on the estimated future net earnings of each vessel to the end of its useful economic life discounted at a rate of 8%.

At 31 December 2004, 15 vessels in the Group's fleet with a net book value of USD 294.1 million were insured for hull and machinery risks with western underwriters. A further 57 vessels with a net book value of USD 256.6 million were insured with Russian underwriters. The total insured value amounted to USD 344.2 million.

Depreciated historical cost of the Group's fleet at 31 December 2004 was USD365.7 million (2003 – USD313million).

Vessels with a net book value of USD 276.5 million are pledged as a security to guarantee the Group's obligations under EBRD and HSH Nordbank bank loans (note 12). A further 15 vessels with a net book value of USD52.7 are pledged as a security to guarantee the Group's obligations under four new building contracts with Chinese shipyard (note 22).

**Far-Eastern Shipping Company PLC
and its subsidiaries**

Notes to the Consolidated Financial Statements – 31 December 2004

4. Other Fixed Assets

	Buildings and Infrastructure	Plant, Machinery and Other	Assets under construction	Total
	USD'000s			
Cost				
At 1 January 2004	68,315	39,999	1,960	110,274
Additions in the year	68	19,095	501	19,664
Subsidiaries not consolidated in prior years (note 24)	-	1,126	-	1,126
Disposals during the year	(19,902)	(7,877)	-	(27,779)
Transferred as contribution to share capital	-	(82)	-	(82)
Impairment adjustment	-	-	(872)	(872)
Translation difference	183	(673)	-	(490)
At 31 December 2004	48,664	51,588	1,589	101,841
Depreciation				
At 1 January 2004	39,703	31,113	-	70,816
Charge for the year	3,354	4,767	-	8,121
Eliminated on disposal	(15,684)	(4,692)	-	(20,376)
Translation difference	(21)	345	-	324
At 31 December 2004	27,352	31,533	-	58,885
Net Book Value				
At 31 December 2004	21,312	20,055	1,589	42,956
At 31 December 2003	28,612	8,886	1,960	39,458

Additions to Plant and Machinery include additions to container park of USD14 million.

5. Vessels Under Construction

Movements during the year on vessels under construction were:

	2004	2003
	USD'000s	
At 1 January	15,636	-
Expenditure during the year	29,149	15,636
At 31 December	44,785	15,636

Details of the Company's commitments in respect of vessels under construction are given in Note 22.

**Far-Eastern Shipping Company PLC
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Notes to the Consolidated Financial Statements – 31 December 2004

6. Long Term Investments

	2004	2003
	USD'000s	
Subsidiary companies (not consolidated)	584	1,583
Joint ventures and associates	2,484	83
Trade loans and investments	245	813
	<u>3,313</u>	<u>2,479</u>

Subsidiaries comprise: -

	2004	2003
	USD'000s	
Fes - Invest	367	367
Fes – Invest – provision for impairment	(367)	(367)
Versailles	2,655	2,655
Versailles – provision for impairment	(2,155)	(2,155)
Sental	384	384
Sental – provision for impairment	(384)	-
Slavyansky Ship Repair Company	-	674
Transfes' subsidiaries not consolidated	68	-
Other	16	25
	<u>584</u>	<u>1,583</u>

Details of the principal subsidiaries are disclosed in Note 24.

Joint ventures and associates comprise:-

	2004	2003
	USD'000s	
Sea Terminal Nakhodka (ceased trading)	-	2,676
Sea Terminal Nakhodka – provision for impairment	-	(2,676)
AKZO-Nobel- FESCO Ltd	340	51
United Orient Shipping Agency Company Ltd.	21	21
Transorient Shipping Company Ltd	1,535	-
Neokont	427	-
Russkaya Troyka	150	-
Other	11	11
	<u>2,484</u>	<u>83</u>

Details of the principal joint ventures and associates are disclosed in note 25.

**Far-Eastern Shipping Company PLC
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Notes to the Consolidated Financial Statements – 31 December 2004

7. Inventories

	2004	2003
	USD'000s	
Bunkers	2,235	3,492
Stores and spares	1,953	261
Victualling	428	331
Other stocks and raw materials	197	137
	<u>4,813</u>	<u>4,221</u>

8. Accounts Receivable

	2004	2003
	USD'000s	
Trade debtors	50,943	36,180
Due from non-consolidated subsidiaries	2,464	-
Due from associates	2,750	1,365
Profit tax receivable	-	81
VAT receivable	11,462	9,867
Other debtors and prepayments	16,888	12,644
Bad debt provision	(21,797)	(23,502)
	<u>62,710</u>	<u>36,635</u>

Included in trade debtors are amounts due from agents used to settle liabilities on behalf of the Group.

USD48.9 million (2003 – USD19.4 million) of accounts receivable is Rouble denominated.

Under Russian Fiscal legislation the Company is required to charge VAT on export freight. The Company may only reclaim or offset these amounts if its customers provide it with certain specified documents which must be shown to the authorities. The outstanding balance in this category is USD11.4 million (2003 -USD9.9 million). Due to continuing difficulty obtaining the required documents management has taken the decision to make 64% (2003 - 60%) provision against all such amounts. As a result the provision has increased from USD5.9 million against a balance of USD9.9 million at 31 December 2003 to USD7.3 million against a balance of USD11.4 million at 31 December 2004.

9. Investments available for sale

	2004	2003
	USD'000s	
Fair value at 1 January	747	7,205
Additions	4,688	2,271
Disposals	-	(7,437)
Fair value adjustment	(4,000)	(1,292)
Fair value at 31 December	<u>1,435</u>	<u>747</u>

The investments included above represent investments in equity securities and loans that present the Company with opportunity for return through dividend income and holding gains.

Additions during the year include Morbank promissory notes with a purchase price of USD 4 million. These are pledged as security for the borrowing of a related parties that are not Group company. The Group has fully provided against the possible default.

**Far-Eastern Shipping Company PLC
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Notes to the Consolidated Financial Statements – 31 December 2004

10. Bank and cash balances

	2004	2003
	USD'000s	
Bank accounts and cash in hand	37,891	24,964
Restricted deposits (note 12 (a))	3,500	6,045
Short dated promissory notes	-	3,339
	<u>41,391</u>	<u>34,348</u>
Bank overdraft	(480)	(405)
	<u>40,911</u>	<u>33,943</u>

USD 8.6 million (2003 – USD 4.2 million) of bank and cash balances is Rouble denominated. USD 0.3 million is Euro denominated (2003 – USD 0.04 million), USD 0.1 million is GBP denominated (2003 – USD 0.02 million), USD 0.8 million (2003 – AUD 3.6 million) as AUD denominated, USD 1.1 million (2003 – NZD 1.2 million) is NZD denominated, USD 7.0 million (2003 – HKD 1.2 million) is HKD denominated.

11. Accounts Payable

	2004	2003
	USD'000s	
Trade creditors	36,415	17,879
Due to non consolidated subsidiaries	-	685
Due to associates	-	167
Profit taxes payable	2,124	947
Non-profit taxes payable	725	305
Other creditors and accruals	12,775	16,662
Dividends payable	133	126
	<u>52,172</u>	<u>36,771</u>

USD12.5 million (2003 – USD8.7 million) of accounts payable is Rouble denominated.

12. Loans and Other Obligations

	2004	2003
	USD'000s	
Loans and other obligations comprise:		
EBRD	35,000	43,000
HSH Nordbank – Loan 1	-	2,500
HSH Nordbank – Loan 2	3,375	5,625
HSH Nordbank – Loan 3	43,500	-
Other	6,710	617
	<u>88,585</u>	<u>51,742</u>
Repayable within the next twelve months	21,238	13,367
Long term balance	67,347	38,375
	<u>88,585</u>	<u>51,742</u>

**Far-Eastern Shipping Company PLC
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Notes to the Consolidated Financial Statements – 31 December 2004

12. Loans and Other Obligations (continued)

(a) EBRD

A loan of USD93.5 million was provided to the Group on 22 December 1997, under agreements dated 12 and 22 December 1997.

The purpose of the loan, which is a joint and several loan, was to refinance an existing EBRD loan and to provide funds to finance the construction of the new buildings delivered in 1998.

The outstanding balance of USD35 million is repayable in quarterly instalments of USD2 million each and a final balloon payment on 31 December 2006. Interest is payable at LIBOR + 1.4375%, reducing to LIBOR + 1.1875% if various loan covenants are met.

The loan is secured by first mortgages on seven vessels in the Group's fleet with an aggregate book value of USD168 million, pledges of shares of the subsidiaries concerned, assignments of the bareboat charters and bank accounts, and by a guarantee from FESCO. The group is also required to maintain a minimum balance of USD3.5 million on Company's bank account.

The loan was refinanced in March 2005 with ING bank (see note 23).

(b) HSH Nordbank (loan 1)

A USD16 million syndicated facility from Hamburgische Landesbank (since 2 June 2003 merged with LB Kiel to form HSH Nordbank AG) was advanced to the Group in December 1998. The final payment of USD2.5 million was effected in June 2004 and the loan was fully repaid.

(c) HSH Nordbank (loan 2)

In April 1998, USD18 million was drawn down from Hamburgische Landesbank (now HSH Nordbank). The outstanding balance of the loan, amounting to USD3.375 million, is repayable in equal half yearly instalments of USD1.125 million each with interest at LIBOR plus 1.25%.

The loan is secured by first mortgages on two vessels in the Group's fleet with an aggregate book value of USD34.5 million, pledges of shares of the vessel owning companies, assignments of bareboat charters and bank accounts and by a guarantee from the Company.

(d) HSH Nordbank (loan 3)

A USD43.5 million loan facility from HSH Nordbank AG was advanced to the group in August 2004.

The purpose of the loan was the part-financing of the purchase of one new building vessel two second hand vessels with an aggregate purchase price of USD62 million. (For details see Note 3)

Tranche 1 amounting to U.S \$16.2 million is repayable in equal half yearly instalments of USD0.45 million over 6 years with a final balloon payment of USD8.7 million.

Tranche 2 amounting to U.S \$21 million is repayable in equal half yearly instalments of USD1.3 million over 6 years with a final balloon payment of USD5.275 million.

Tranche 3 amounting to U.S \$6.2 million is repayable in equal half yearly instalments of USD0.775 million over 4 years.

Interest is payable at LIBOR+1.35%, LIBOR +1.45%, LIBOR +1.75% for the various tranches respectively.

The loan is secured by first mortgages on six vessels in the Group's fleet with an aggregate book value of USD74 million, assignments of earnings and insurances, pledges of shares of the vessel owning companies and by a guarantee from the Company.

(e) Other loans

In June 2003, the Group received a loan from Black Gold Trading and Finance Corp. for working capital needs. The outstanding balance of the loan at 31 December 2004 amounted to USD 0.655 million. This loan is interest free with no fixed date of repayment.

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12. Loans and Other Obligations (continued)

(e) Other loans

In December 2004 a loan facility of USD 4.4 million was advanced by Vneshtorgbank for the purpose of financing container purchases from Maersk Container Group. Interest is payable at 8.5% p.a., repayable before 2007 in semi-annual instalments.

On 5 July 2004 RUR 10 million (USD 0.360 million) short term loan facility was advanced to the Group by Morbank (related party). The Loan is repayable in April 2005. The purpose of the loan was replenishing working capital. Interest is payable at 13.75% p.a.

On 23 September 2004 RUR 10 million (USD 0.360 million) short term loan facility was advanced to the Group by Fesbank. The Loan is repayable in September 2005. The purpose of the loan was replenishing working capital. Interest is payable at 13% p.a.

A short term loan of RUR 10 million (USD 1.081 million) was provided to the Group on 7 July 2004 by ZAO Sovbunker. The loan is repayable in July 2005. Interest is payable at 9% p.a.

Where applicable, licences have been issued by the Central Bank of Russia in respect of all foreign borrowings.

13. Deferred Taxation

Deferred taxation is provided for in full on all temporary timing differences between the carrying values of assets and liabilities reported for tax purposes and for accounting purposes. The provision is based on the Company's anticipated effective profit tax rate of 24% (2003 – 24%).

Movement in temporary differences during the year:

	Balance 31 December 2003	(Charge) / release to income for the year	Charge to equity for the year	Balance 31 December 2004
Vessels	(28,728)	(14,291)	(13,154)	(56,173)
Other fixed assets	(6,345)	7,769	-	1,424
Assets under construction	(3,994)	(973)	-	(4,967)
Investments	778	474	-	1,252
Inventories	416	261	-	677
Accounts receivable	7,930	4,088	-	12,018
Accounts payable	108	(806)	-	(698)
Provisions, accruals and deferred income	4,634	(4,442)	-	192
Foreign deferred tax	117	498	-	615
	<u>(25,084)</u>	<u>(7,422)</u>	<u>(13,154)</u>	<u>(45,660)</u>

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14. Share Capital

	2004	2003
Authorised number of shares (1 Rouble per share)	2,000,000,000	2,000,000,000
Issued number of shares	1,643,593,000	1,643,593,000
Share capital (USD'000)	<u>4,130</u>	<u>4,130</u>

Upon privatisation of the Company on 3 December 1992, 1,626,855 shares of 1,000 old Roubles each were issued at par by a capitalisation of reserves of an equivalent amount. During 1994 a further 16,738 shares of 1,000 old Roubles each were issued for a consideration equivalent to USD556,000 giving rise to a share premium of USD548,000. In May 1995, the shares were split, reducing the nominal value from 1,000 old Roubles to 100 old Roubles and a further 147,923,370 shares issued by a transfer from reserves. In May 1996, the nominal value of the shares was increased from 100 old Roubles to 1,000 old Roubles, increasing the share capital to old Roubles 1,643,593 million, by a further transfer from reserves. In 1998 the nominal value was redenominated to 1 new Rouble. No value has been attributed to the share capital increases in 1995 and 1996, as the Company's statutory revaluation reserve out of which the transfers were made has effectively already been reflected in the U.S. Dollar value of the share capital calculated at the date of the Company's privatisation.

FES-Invest AO held a shareholding in the Company amounting to approximately 0.01% of the Company's issued capital at 31 December 2004 (2003 – 0.01 %).

15. Other Reserves

	Investment Fair Value Reserve USD'000s	Fleet Revaluation Reserve USD'000s	Other Reserves USD'000s	Total USD'000s
Balance 1 January 2003	(262)	1,648	1,627	3,013
Deferred tax liability arising on revaluation of fleet	-	(6,422)	-	(6,422)
Release of investment reserve on disposal	262	-	-	262
Revaluation of fleet	-	25,608	-	25,608
Release from revaluation reserve – annual release	-	(498)	-	(498)
Translation difference	-	-	258	258
Balance 1 January 2004	-	20,336	1,885	22,221
Deferred tax liability arising on revaluation of fleet	-	(13,154)	-	(13,154)
Revaluation of fleet	-	129,215	-	129,215
Release from revaluation reserve – annual release	-	(5,410)	-	(5,410)
Translation difference	-	-	(93)	(93)
Balance 31 December 2004	<u>-</u>	<u>130,987</u>	<u>1,792</u>	<u>132,779</u>

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Notes to the Consolidated Financial Statements – 31 December 2004

16. Taxation

Profit tax is calculated at an average rate of 24% (2003 – 24 %), based on profit as computed under Russian accounting regulations and adjusted for fiscal purposes.

	2004	2003
	USD'000s	
Charge for the year	10,970	3,997
Overseas taxation	1,323	1,111
Deferred taxation	7,422	14,803
	<u>19,715</u>	<u>19,911</u>

The Group's accounting loss can be reconciled to taxable profit as follows: -

	2004	2003
	USD'000s	
Accounting profit	87,015	95,656
Adjustment for foreign subsidiaries not subject to Russian tax	(37,826)	(15,951)
Adjustments to comply with IAS	(1,582)	(60,893)
Accounting profit in accordance with Russian standards	47,607	18,812
Adjustment for allowable deductions	(1,899)	(2,158)
Taxable profit	<u>45,708</u>	<u>16,654</u>

Other significant domestic taxes borne by the company include:

	2004	2003
	USD'000s	
Property tax	868	938
Others	457	267
	<u>1,325</u>	<u>1,205</u>

Property tax is calculated at a rate of 2.2% (2003 – 2%) on the value of assets as computed under Russian accounting regulations.

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Notes to the Consolidated Financial Statements – 31 December 2004

17. Reconciliation of Operating Profit/(Loss) to Operating Cash Flows

	2004	2003
	USD'000s	
Profit before Taxation, Asset Disposals and Revaluations	54,473	40,053
Taxation	(19,715)	(19,911)
Adjusted for:		
Deferred taxation	7,421	14,803
Finance charges	3,043	2,320
Interest received and investment income	(1,915)	(1,397)
Negative goodwill	(1,330)	-
Vessel equipment expensed	389	246
Depreciation	33,846	28,125
Exchange differences	(3,308)	(2,418)
Movements in working capital:		
Increase in accounts receivable	(26,075)	(10,017)
(Increase) / Decrease in inventories	(592)	9
Increase / (Decrease) in accounts payable	15,386	(9,167)
Decrease / (Increase) in voyages in progress	52	(928)
Net cash from operating activities	<u>61,675</u>	<u>41,718</u>

18. Profit on Disposal of Fixed Assets and Investments

	2004	2003
	USD'000s	
Profit on sale of vessels	3,262	77
(Loss) / profit on disposal of other fixed assets	(1,058)	823
Profit on disposal of Government bonds	-	259
Profit on disposal of other investments	78	146
	<u>2,282</u>	<u>1,305</u>

19. Fair Value and Impairment Adjustments

	2004	2003
	USD'000s	
Fleet – reversal of prior year impairment	55,107	79,090
Investments fair value adjustments	(4,260)	(1,292)
Fixed assets write down	(872)	(3,589)
	<u>49,975</u>	<u>74,209</u>

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20. Profit per share

	2004	2003
	USD	
Profit for the year	86,965,000	95,656,000
Weighted average number of shares	1,643,043,980	1,639,788,314
Profit per share	<u>0.053</u>	<u>0.058</u>

21. Related party transactions

Balances with related parties are set out in notes 8, 11 and 12.

During the year the Company received dividend income of USD119,070 from AKZO-Nobel- FESCO Ltd.

The remuneration of the ten directors during the year was as follows:

	2004	2003
	USD'000s	
Salaries	1,142	1,108
Bonuses	601	-
	<u>1,743</u>	<u>1,108</u>

22. Contingencies and Commitments

Operating lease commitments

At 31 December 2004, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2004	2003
	USD'000s	
Within one year	913	1,571
In two to five years	8,843	16,155
After more than five years	148	508
Total outstanding commitment	<u>9,904</u>	<u>18,234</u>

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22. Contingencies and Commitments (continued)

Capital commitments

In April 2004 the Group entered into shipbuilding contracts for the construction of three 1730 TEU containerships in Poland. Two vessels at a cost of USD27 million each are scheduled for delivery by 30 December 2007. A 5% instalment was paid prior to 30 June 2004. Two instalments of 10% each are due on of steel cutting and keel laying. A fourth instalment of 15% is to be paid on launching. The remaining 60% will be due on delivery. The third vessel is scheduled for delivery not later than 30 April 2008. The contracted price for the vessel is USD30.4 million to be paid according to a schedule that for the other vessels.

In June 2004 the Group entered into shipbuilding contracts for the construction of four 1100 TEU container vessels in China at a purchase price of EUR8 million to USD10.1 million each. The vessels are scheduled for delivery not later than 30 March 2006, 30 September 2006, 30 November 2006 and 30 December 2006. The first instalment of 20% is payable was paid in 2004 of after receipt of the Refund guarantee. The next three instalments of 10% each are payable on steel cutting, block-erection and launching. The remaining 50 is to be paid on delivery.

The Group's commitments in respect of new buildings fall due as follows:

	2004	2003
	USD'000s	
In one year	78,463	6,300
In two to five years	90,223	53,749
Total outstanding commitment	<u>168,686</u>	<u>60,049</u>

23. Post balance sheet events

In March 2005 the Group obtained a credit facility of USD85 million from ING Bank. The Term Loan Facility of up to \$60,000,000 is to refinance the existing EBRD loan and to finance the acquisition cost of the Containers; and Revolving Credit Facility of up to \$25,000,000 to finance a general corporate needs. The loan is secured by first mortgages on six vessels in the Group's fleet with an aggregate book value of USD156 million, pledges of shares of the subsidiaries concerned, and by a guarantee from FESCO. The facility is comprised of a term loan facility and a revolving credit facility. The term loan of USD 60,000,000 is to be repaid in eight consecutive quarterly instalments of USD 3,000,000 each, followed a further sixteen consecutive quarterly instalments of 2,250,000 each. The first instalment is due in June 2005. The revolving credit facility of up to USD 25,000,000 is repayable after one, three or six months as selected by the Group at drawdown.

Since the balance sheet date the Group has entered into a further four newbuilding contracts for container vessels to be delivered in 2006. Total commitments under these contracts amount to USD205 million.

M.v. Fesco Sakhalin, diesel electric Ice Breaking Supply and Standby vessel with deadweight capacity 4298 tonnes, was delivered on 15 June 2005 to Talgona Shipping Company Ltd.

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24. Subsidiary Companies

The principal subsidiary companies of Far-Eastern Shipping Company PLC are:

<u>Name</u>	<u>Country of Incorporation</u>	<u>Percentage Holding</u>	<u>Activity</u>
FESCO Agencies (UK) Ltd (Group)	United Kingdom	100%	Ceased trading
FESCO Lines Australia Pty Ltd (Group)	Australia	100%	Holding Company
<i>Subsidiaries:</i>			
FESCO Lines Hong Kong Ltd	China	100%	Shipping agency
<i>Subsidiaries:</i>			
Arctic Ocean International Ltd	British Virgin Islands	100%	Holding company
<i>Subsidiaries:</i>			
Gemline Shipping Company Ltd	Cyprus	100%	Dormant
Pacific Crest Shipping Ltd	Cyprus	100%	Dormant
Crest Island Shipping	Cyprus	100%	Dormant
FESCO Ocean Management Ltd	Cyprus	100%	Shipping operations
FESCO Lines New Zealand Ltd	New Zealand	100%	Shipping agency
FESCO Australia Pty Ltd	Australia	100%	Shipping agency
Maritime and Intermodal Logistic Systems Pty Ltd	Australia	100%	Dormant
Roselau Shipping Co. Ltd (Group)	Cyprus	100%	Holding company
<i>Subsidiaries:</i>			
Roselaust Container Ships Ltd	Cyprus	100%	Holding company
<i>Subsidiaries:</i>			
Antilalos Shipping Company Ltd	Cyprus	100%	Ship owning
Bodyguard Shipping Company Ltd	Cyprus	100%	Ship owning
Diataxis Shipping Company Ltd	Cyprus	100%	Ship owning
Roselana Container Ships Ltd	Cyprus	100%	Holding company
<i>Subsidiaries:</i>			
Bonver Shipping Company Ltd	Cyprus	100%	Ship owning
Padova Shipping Company Ltd	Cyprus	100%	Ship owning
Fentil Shipping Company Ltd	Cyprus	100%	Ship owning
Roseleast Container Ships Ltd	Cyprus	100%	Holding company
<i>Subsidiaries:</i>			
Yerakas Shipping Company Ltd	Cyprus	100%	Ship owning
Tryfield Shipping Co. Ltd (Group)	Cyprus	100%	Holding company
<i>Subsidiaries:</i>			
Seamine Shipping Company Ltd	Cyprus	100%	Ship owning
Festiver Shipping Company Ltd	Cyprus	100%	Ship owning
Phantex Shipping Company Ltd	Cyprus	100%	Ship owning
Marline Shipping Company Ltd	Cyprus	100%	Ship owning
Marview Shipping Company Ltd	Cyprus	100%	Ship owning
Tryreefer Shipping Company Ltd	Cyprus	100%	Dormant
FESCO Marine Company Ltd	Malta	100%	Ship owning
FESCO Agencies NA Inc. (Group)	USA	100%	Shipping agency
FESCO Supply Shipping Company	Cyprus	100%	Dormant
<i>Subsidiaries:</i>			
Talgona Shipping Company Ltd	Cyprus	100%	Dormant

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Notes to the Consolidated Financial Statements – 31 December 2004

24. Subsidiary Companies (continued)

MAC Transfes	Russia	90%	Shipping agency and operations
<i>Subsidiaries:</i>			
* Transfes Magadan	Russia	81%	Shipping agency and operations
* Container Monitoring Center	Russia	81%	Container operations
* Orista	Russia	63%	Shipping agency
* FESCO bunker	Russia	68%	Bunker supply
* MAK Transfes Sakhalin	Russia	75%	Shipping agency
* Transfes Kamchatka	Russia	50%	Shipping agency
Slavyansky Ship Repair Company	Russia	70.25%	Ship repair yard
Property complex ZSK	Russia	100%	Bricks production
FESCO Hall	Russia	100%	Concert agency
* Versailles	Russia	59%	Hotel operator
* Fesinvest	Russia	100%	Investment company
* FESCO Logistik	Russia	100%	Shipping agency
* Dalrefrans	Russia	100%	Shipping agency
* FESCO Intermodal	Russia	100%	Shipping agency
* FESCO Service	Russia	100%	Vessels' repair
* Not consolidated			

MAC Transfes and Slavyansky Ship Repair Company were not included in consolidated accounts in prior years as they were not material for the group. Details of net assets included on consolidation in 2004 are:

Carrying value of investments	1,219
Subsidiaries' net assets	<u>(2,549)</u>
Negative goodwill	<u>(1,330)</u>

The assets and liabilities arising from consolidation of MAC Transfes and Slavyansky Ship Repair Company are:

Cash	1,858
Property, plant and equipment	1,126
Investments in subsidiaries	68
Inventories	1,670
Accounts receivable	5,013
Accounts payable	<u>(6,955)</u>
Net assets	2,780
Minority interests	<u>(231)</u>
Net assets attributable to the Group	<u>2,549</u>

Minority interest as shown on the face of balance sheet represents those net assets of subsidiaries that were attributable to minority interest at the date of first consolidation (USD'000 231) plus that part of the net results of operations for the year (USD'000 50) attributable to minority interest.

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Notes to the Consolidated Financial Statements – 31 December 2004

25. Joint Ventures and Associates

The principal joint ventures and associates of Far-Eastern Shipping Company PLC are:

<u>Name</u>	<u>Country of Incorporation</u>	<u>Percentage Holding</u>	<u>Activity</u>
Neokont	Russia	50%	Transport - forwarding
Russkaya Troyka*	Russia	50%	Cargo transportation
AKZO-Nobel- FESCO Ltd	Hong Kong	49%	Supply of paint in Far East Russia
Transorient Shipping Company Limited	South Korea	49%	Maritime general agency
United Orient Shipping Agency Company Limited*	Japan	25%	Shipping agency
Vostochniy express service*	Russia	34%	Shipping operations

* Not consolidated